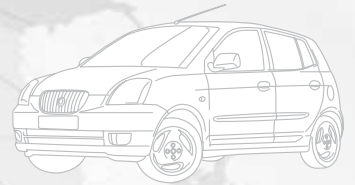
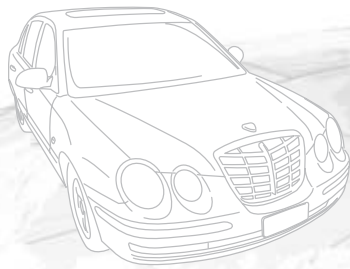


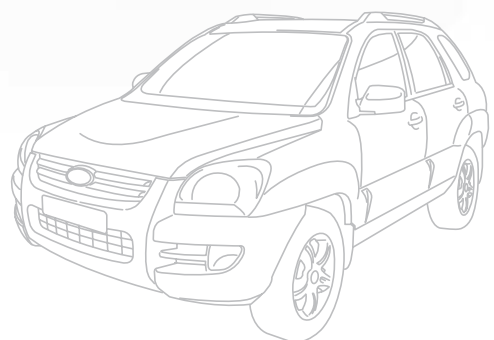
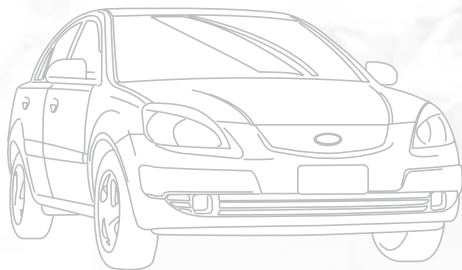
## GEARING UP

Kia Motors competed head to head with the world's best in 2004, developing and producing top quality automobiles and accelerating its advance into the future.



# *The Power to Surprise™*

<http://www.kia.co.kr>  
<http://www.kmcir.com>



Chairman's Message

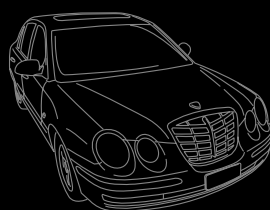
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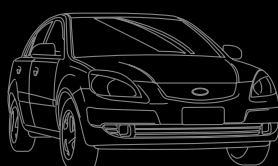


For New Platform

For Human Society

Financial Review

IR Information



Five-Years Summary

Board of Directors

History



Global Networks

This annual report contains performance results, financial data as well as the business outlook and strategies of Kia Motors Corp. The statements herein represent Management's objective judgment, but Kia Motors' actual results in the future could differ materially from those presented here. Please understand, therefore, the accuracy and completeness of forward-looking statements cannot be guaranteed.





A silver Kia Sportage is shown from a front-three-quarter perspective, driving on a paved road. The car is in motion, as indicated by the blurred background of green trees and foliage. The car's front grille features the Kia logo and a badge that reads "SPORTAGE". The headlights are visible on either side of the grille.

Kia Motors, a key player in the Korean automobile industry, is now emerging as a truly global player that is attracting world attention.

Kia Motors was established in 1944 and has remained a leader in advancing the domestic automotive industry. In the process, the company has been an important driver of Korea's economic development.

The company operates state-of-the-art automobile plants in Korea (at Hwasung, Sohari and Gwangju) as well as in China. The Main R&D Center at Namyang, Korea is linked to company research facilities in the US, Germany and Japan to create core technologies for the future.

A global network of subsidiaries and dealers is in place, exporting automobiles to enthusiastic buyers in more than 180 countries.





Kia's goal is to lead the world automobile market, providing customers around the world



with cutting-edge, future-oriented technologies and environment-friendly automobiles.





*Kia Motors is earning a lot of new names:*

**Major world player**



**Dream maker**



**Trusted company who satisfies customers**

Kia Motors aims to build a global leading brand by offering world-class quality, designs and services that make automobiles that are both "exciting and enabling".

If it's built by Kia, it's a brand that brings future rewards.

Kia's goal is to lead the world automobile market, providing customers around the world with cutting-edge, future-oriented technologies and environment-friendly automobiles that inspire greater confidence in and passion for better life.



Kia Motors Corporation  
Chairman & CEO

Mong-Koo Chung

In 2005, the world will not only know that Kia is a global player. Rather, we will make our mark as a top-tier automaker.



The year 2005 will be the year of great leap for Kia Motors to become a global player based on 'Innovation for Humanity'. Difficulties such as weak domestic demand, sluggish global economy, and the weak dollar are threatening automakers. To overcome these challenges, it is necessary to predict coming changes and cope with them quickly.

That is why world-best innovation is important. 'Innovation for Humanity' - the mid- and long-term goal of Kia Motors - is its pledge that it will not be complacent with growth in quantity, but pursue growth in quality as a world - class automaker.

From now on, Kia Motors will firmly maintain its position as a global auto manufacturer, by securing product quality trusted by customers, improving its brand value, enhancing risk management, establishing a global business system, recruiting talents, and fostering experts.



## President's Message



Kia Motors Corporation  
President & CEO

**Ik-Hwan Kim**

### *"Innovation for Humanity"*

#### Enhanced Brand Value

- Successfully Execute our Global Brand Strategy
- Develop Global 'Hit' Model
- Achieve and maintain the Global top-level in Quality

#### Accelerated Global Management

- Establish a global support system to achieve global presence
- Build the foundation to ensure a successful global production base
- Strengthen global-wide R&D capabilities

#### Risk Management

- Economize management operations
- Secure sustainability through risk management practices
- Develop harmonious labor-management relations

#### Focus on Cultivating Key Talent

- Increase regional specialists to build a global resource network
- Promote efficiency in allocation of key human resources
- Secure top R&D talent in order to develop "Hit Cars"



### *To Our Shareholders:*



We experienced difficulties in 2004 from high oil prices, surging prices for other raw and secondary materials, and a protracted domestic economic slowdown. Moreover, the Korean Won appreciated sharply against the Dollar in the second half.

Despite the adverse conditions, annual sales exceeded one million units for the first time, thanks in large part to your support. This performance has marked a turning point for the company.

Various negative factors lowered net income 10.2% year on year to W690.6 billion, but total sale volume was up 17.8% to 1,011,429 units. Sales revenue in 2004 was also 18.8% higher year on year to more than W15.25 trillion. These numbers represent record quantitative growth for Kia Motors.

Importantly, we made up for slumping domestic sales by exporting 760,786 units in 2004, which is up 41.2% against the previous year. Kia achieved higher sales growth in Europe than any other automaker for two years in a row, and record sales were also achieved in the US and China.

The strong performance can be attributed to our introduction of competitive new models such as the European-style Morning(sub-compact car), Cerato(compact sedan), Bongo (small truck/commercial van) and Sportage(compact SUV). Of course, the steadily improving quality of Kia-built vehicles has helped to boost overseas sales as well. Kia has improved the fastest on the J.D. Power & Associates initial quality survey(IQS) over the past two years.

Moreover, we have diversified our export markets, which originally focused mainly on the US, and are selling more units in Europe, Latin America, Asia and Australia each year. This is the main reason that our exports continue to grow even as the Dollar weakens against the Won.

This steady growth in overseas sales enabled Kia Motors to earn the Korean government's US\$7 Billion Export Tower Trophy in 2004. Also, our international credit rating was upgraded to a record "Baa3" ("investment grade") for the first time in Kia's history.

We can point to other very significant developments in 2004. Our global network began expanding rapidly with the groundbreaking for our first plant in Europe and our second plant in China. Meanwhile, our plant in Gwangju, Korea was retooled to produce 350,000 units a year, which will improve profitability there. Domestic sales of the New Sportage have soared to lead all models in its class. Finally, 2004, was the third straight year that our operations have not been marred by labor problems. All these performances are thanks to your continuous support.

Annual sales exceeded one million units for the first time, thanks in large part to your support. This performance has marked a turning point for the company.

All Kia employees are passionate about building on the many successes in the past year to keep making the company stronger and raising value for you, shareholders.

As we all are aware, prospects for the coming year are not very bright. Market watchers say that the US and Chinese economies are showing signs of a slowdown, while the US Dollar will remain weak and recovery of the Korean economy will be delayed. However, management at Kia Motors intends to continue moving forward. We have adopted a "crisis control" posture, which includes accurately predicting risk factors and implementing countermeasures. We have also set ambitious performance targets: a record 1.21 million units sold and W18.57 trillion in sales revenue.

To this end, we are resolved to make labor-management relations more productive and mature. We have devised innovative approaches that will further raise our operational transparency and global competitiveness. Our plans also call for increasing sales inside as well as outside Korea and for boosting profitability.

This year, we will first reintroduce our economical Pride(sub-compact sedan), present follow-ups for our very successful Carnival(mini-van) and Optima(mid-size sedan), and launch some new diesel-powered versions of existing models. We aim to make the most of this opportunity to raise our share of the Korean market to 27%, regaining the market share lost in 2004.

Meanwhile, overseas operations will be bolstered to accommodate annual sales of 1 million units, worth some US\$10 billion. In March 2004, we exported our 5 millionth vehicle after 30 years of overseas operation. This is a meaningful achievement for the Korean automotive industry and serves as a platform for our becoming a truly global automaker.

In addition to such quantitative growth, we are now working on bringing our brand status up to that of the world's best. This will enable us to command the right price for our products in every market worldwide. Of course, the fundamental competitiveness of our quality, productivity and R&D activities will continue to be raised. Investment will also be increased so that we can introduce highly competitive new models and complete our global production network expansion - the engine that will drive future growth.

We expect 2005 to be our most challenging year ever and a time of tremendous change for Kia Motors. The phrase "Innovation for Humanity" summarizes our mid- and long-term vision. To this end, we will continue pursuing the qualitative growth that can lay the groundwork for our becoming a major global player. The 30,000 people in the Kia Motors organization are resolved to achieve the ambitious goals we have set for ourselves in 2005 and to provide you, our shareholders, with higher value in return for your unwavering support.

I thank you for your interest in us and extend my best wishes to you and your families.



**Ik-Hwan Kim**

President & CEO

Kia Motors Corporation

## Financial Highlights

### SUMMARIZED NON-CONSOLIDATED STATEMENTS OF INCOME

(Korean won in millions)

	2004	2003	2002
<b>Sales</b>	<b>₩ 15,257,742</b>	<b>₩ 12,839,881</b>	<b>₩ 12,158,113</b>
Cost of sales	12,421,361	10,084,078	9,581,392
<b>Gross profit</b>	<b>2,836,381</b>	<b>2,755,803</b>	<b>2,576,721</b>
Selling and administrative expenses	2,333,926	1,943,363	1,918,228
<b>Operating income</b>	<b>502,455</b>	<b>812,440</b>	<b>658,493</b>
Other income	899,489	588,732	624,326
Other expense	572,475	456,743	425,247
<b>Ordinary income</b>	<b>829,469</b>	<b>944,429</b>	<b>857,572</b>
Extraordinary item	-	-	-
<b>Income before income tax</b>	<b>829,469</b>	<b>944,429</b>	<b>857,572</b>
Income tax expense	138,900	175,036	177,165
<b>Net income</b>	<b>₩ 690,569</b>	<b>₩ 769,393</b>	<b>₩ 680,407</b>

### SUMMARIZED NON-CONSOLIDATED BALANCE SHEETS

(Korean won in millions)

	2004	2003	2002
Current assets	2,926,512	3,251,294	2,921,333
Non-current assets	7,944,956	7,230,739	6,041,347
<b>Total assets</b>	<b>₩ 10,871,468</b>	<b>₩ 10,482,033</b>	<b>₩ 8,962,680</b>
Current liabilities	3,625,479	3,839,030	2,679,542
Long-term liabilities	2,146,900	2,029,923	2,339,421
<b>Total liabilities</b>	<b>5,772,379</b>	<b>5,868,953</b>	<b>5,018,963</b>
Capital stock	1,848,652	1,848,652	1,848,652
Capital surplus	1,701,955	1,700,956	1,699,924
Retained earnings	1,418,241	990,726	402,498
Capital adjustments	130,241	72,746	(-)7,357
<b>Total shareholders' equity</b>	<b>5,099,089</b>	<b>4,613,080</b>	<b>3,943,717</b>
<b>Total liabilities and shareholders' equity</b>	<b>₩ 10,871,468</b>	<b>₩ 10,482,033</b>	<b>₩ 8,962,680</b>

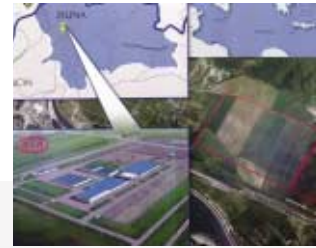
### SALES RESULT

(Units)

	2004	2003	2002
Domestic	250,643	319,795	444,444
Export	760,786	538,902	449,824
<b>Total Sales</b>	<b>1,011,429</b>	<b>858,697</b>	<b>894,268</b>



## 2004 at a Glance

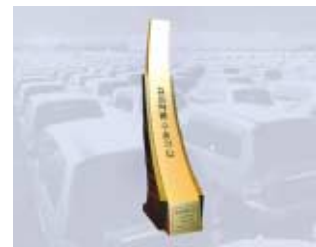


### FIRST EUROPEAN PLANT IN SLOVAKIA, SECOND PLANT IN CHINA

Kia Motors began to take concrete steps in the expansion of its global production network in 2004. In April, ground was broken for Kia Motors Slovakia (KMS), which will pave the way for greater penetration of the European market. The plant, which is scheduled for start-up in the second half of 2006, will produce C-segment passenger cars, key for the European market, as well as RVs (SUVs and MPVs). This production base will allow the company to supply and sell automobiles that best accommodate European preferences at the time they are needed. It will provide a solid platform of close support as Kia competes head to head with the long-established automakers in Europe. In addition, construction began on a second plant for DYK, the Chinese production subsidiary. When completed at the end of 2006, the new facility will have an annual output capacity of 300,000 units, boosting Kia's total capacity in China to 430,000 units, enough to accommodate growing demand in that country for the mid-/long-term.

### US\$7B EXPORT TOWER RECEIVED, HELPING DRIVE NATIONAL ECONOMY

The Korean government presented Kia Motors with its US\$5 Billion Export Tower Trophy in 2003, followed by the US\$7 Billion Export Tower Trophy in 2004, reconfirming the company's contributions to the Korean economy. Kia exported its first automobiles in 1975, with a shipment to Qatar. In 1994, nineteen years later, the company's annual exports exceeded US\$1 billion for the first time. In 1997, the company received the US\$1.5 Billion Export Tower, rising to the US\$5 Billion Export Tower just six years later. Now, the export total reached US\$7 billion in 2004 and company officials are aiming at US\$10 billion in 2005. In November each year, the Korean government presents its Export Tower Trophy to companies in recognition of their export performance for the previous July 1-June 30 period. Kia Motors achieved about US\$9.5 billion in exports between January 1 and December 31, 2004, while the export target for 2005 is set at US\$12.6 billion.



### ALL-OUT EFFORT TO IMPROVE SALES ORGANIZATION PRODUCTIVITY

The most pressing task for Kia Motors in 2004 was to turn around the domestic sales performance, and this required sacrifice and hard work by the entire company. Kia's domestic sales remained mired in a slump in 2004, with the company's market share at 23.0%, the lowest point since falling from 28.5% in 2000. To break out of this predicament, the sales force focused on reestablishing their sales approaches on the showroom floor and on boosting productivity. Salespeople, if they hope to, could also transfer to the production position as part of bold innovation efforts to strengthen sales effectiveness.



### ACCELERATED QUALITY MANAGEMENT HEADED FOR MID-RANGE ON IQS

Kia Motors adopted the IQS program three years ago and has shown a tremendous rate of improvement (2nd place among all participants, 58% against the year 1998) over that time. In 2005, the company plans to enter the mid-range (125 points) by maintaining a firm grip on quality management activities. IQS task forces are working at the Sohori and Hwasung plants, while at the Gwangju plant a special unit is dedicated to dealing with quality issues concerning the Sportage, the first vehicle produced there to enter the North American market. Every effort is now being made to ensure that all export vehicles are flawless.



### EMERGENCY MEASURES TO DEAL WITH EXCHANGE RATES

The Korean Won is sure to appreciate further against the Dollar in 2005, while the prices for materials (raw and secondary) are rising along with fixed costs. To respond to the worsening circumstances, Kia Motors declared a state of emergency at the end of 2004 and is employing every means at its disposal. All non-essential payment factors have been eliminated; the company will only bear the expenses that are unavoidable. Therefore, a company-wide cost-cutting campaign is in force, with each team or division setting targets for cost reduction. At the same time, productivity in production and sales is being raised, and operations at overseas plants and subsidiaries are being strengthened to boost profitability.

### SPORTAGE SPARKS SALES IN KOREA

The new Sportage, designed as a compact, luxury SUV that performs like a passenger car, made its debut in August 2004 and has been such a big hit that inspired many to buy in a sluggish domestic automobile market. More than 10,000 sales contracts were finalized within five days after launching, and over 16,400 units were sold after three months. By the end of the year, the sales figure had reached 27,513. The hugely popular new Sportage has emerged as the best-selling vehicle in Korea in 2004. It solves the driver comfort problems experienced with other SUVs in its class, and cabin room has been maximized. Other attractions for Korean buyers include the luxurious interior, top-end specifications, award-winning exterior styling, award-winning unique colors, and the most fuel-efficient among Koreans SUVs.



### OVERSEAS CREDIT RATING RAISED TO "Baa3"

In November 2004, Moody's Investors Service raised its credit rating for Kia Motors two notches, from "Ba2" to "Baa3," and judged Kia's future credit rating as "stable." Prior to the Korean financial crisis of 1997-8, Kia Motors did not receive a separate rating from Moody's. After the company's bankruptcy and subsequent recovery, its credit rating has been adjusted upward four times and now has reached investment grade for the first time ever. The "Baa3" rating means the company poses no risk to investors, lowering the interest it must pay to raise capital and bolstering its corporate image.



### PRODUCTION SYSTEM OVERHAUL FOR BETTER EFFICIENCY, PROFITABILITY

Kia Motors has gone forward with a project to retool its plants in order to make them more efficient and more profitable. The Gwangju plant started up production of the new Sportage in June 2004. The facility now has the capacity to turn out 350,000 units a year and small variation/large lot production system, laying the groundwork for profitable operation. The facility will be further improved and annual output will rise to more than 400,000 units by the time the plant will have begun to produce the upgraded Carens (project name: UN) in 2006. The production line improvement projects at Sohari and Hwasung plants have also proceeded smoothly.



### PI UNDERWAY TO REACH TOP-TIER GLOBAL STATUS

A major process innovation (PI) project has been kicked off at both Kia Motors and Hyundai Motor to acquire the information management capabilities and corporate processes needed to support a global production and sales system for over 5.5 million units a year. Processes are being standardized globally, and a system for real-time business decision-making is being established. The corporate culture is also being reoriented toward customers, while employee consensus on the corporate vision is being nurtured. Current ways of thing and acting as well as information systems are all being improved so that the company can reach its goal of being one of the world's elite automakers.

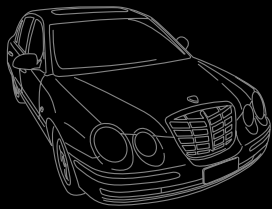


### LEADING SALES GROWTH IN EUROPE... AGAIN

The European Automobile Manufacturers Association (ACEA) has released its data on automobile sales in 18 Western European countries during 2004. According to that report, Kia Motors sold 154,803 vehicles during the year, up 44.4% from 2003. This is the second year in a row that the company has set the fastest sales growth record in Europe; the company's sales grew 48.4% year on year in 2003. The company's success comes from stronger marketing and the introduction of new models that are made for the European market such as the Morning (Picanto) and Cerato. The company expects to continue its record growth streak in 2005, when it introduces the New Sportage (compact SUV) and New Pride (follow-up to the Rio).

Kia Motors is focusing on global markets to become a major global player. From the US, at the heart of the global market, to China, with the world's greatest growth potential...

Gearing Up |



# For High

Kia Motors is becoming recognized as a top-tier automaker for technology and design worldwide, even by the demanding European consumers.



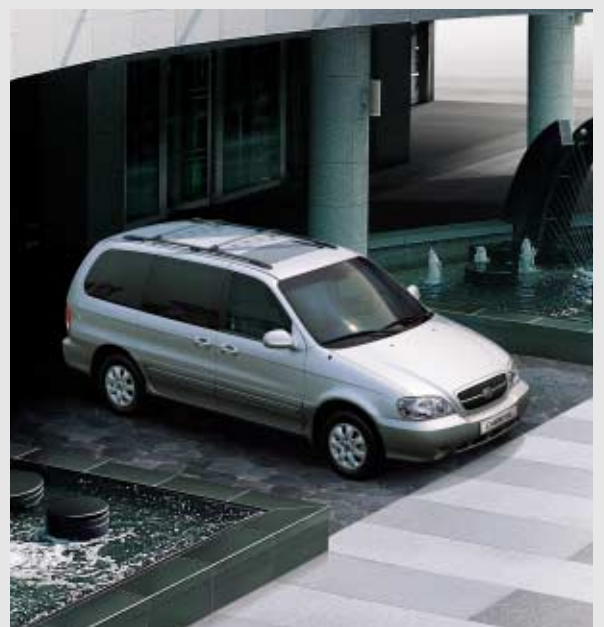


>> The Opirus (exported as the Amanti) received the car.com (a website dedicated to automobiles) 2004 Impact Award at the New York Auto Show in April.

# Performance



>> The Picanto has been ranked first in the A segment in performance comparison tests conducted by leading automotive trade journals in Germany, the UK, Austria, and France.



>> Dongfeng Yueda Kia Motors' sales reached 62,506 units, up 22.5% year on year for a 2.5% market share and 12th ranking among automakers doing business in China.





760,786  
Units





## Kia Motors will continue its vigorous advance overseas in 2005.

In 2004, the company exported 760,786 units (based on fully assembled vehicles), up 41.2% of year-on-year, despite unfavorable global market conditions and constraints from other automakers. Sales continued to grow not only in the US and Europe, but also in the rapidly emerging China market.

New models and quality improvements have contributed to the success of the company overseas. Every new model launched by Kia in 2004 - the European - style Morning (Picanto), Cerato (New Spectra) and the New Sportage - has been incredibly well received by buyers in all global regions.

Kia Motors is constructing new offshore production bases and has added three new overseas sales subsidiaries existing ten. To bolster its position in the rapidly growing European market, Kia began to build a new plant with an annual capacity of 300,000 units at Zilina, Slovakia. The company also held the signing ceremony for its second Chinese plant, which will have an annual capacity of 300,000 units and bolster Kia's position in the world's greatest potential market. When the construction completed, the company will be able to locally produce and distribute 430,000 units a year in China.





Kia Motors is emerging as a major player in the US market, where competition among major global automakers is the most fierce.

Kia's customer retention rate was 50.9%, above the industry average of 48.4%, in December 2004, according to J.D. Power and Associates. The company ranked 10th in customer retention rate among the 35 surveyed companies, while other big name international automakers such as Jaguar, Nissan, Mitsubishi, Audi, Volkswagen, and Porsche failed to make the top ten list.

The Opirus and Sorento have been acclaimed by US customers. The Opirus (exported as the Amanti) received the car.com (a website dedicated to automobiles) 2004 Impact Award at the New York Auto Show in April. The New York Times gave the Opirus very high marks for design and called the Kia sedan "outstanding" in terms of luxury for price.

Kia started to export the Sportage to the US market in November. This compact SUV can be the next strategic export model because its performance and quality is equivalent to those of the Opirus and Sorento, which have already been well received in the US.





50.9%











**Kia Motors is turning cars into masterpieces that highlight true value to customers.**

Kia Motors' European sales grew 44.4% year on year in 2004, the highest in the industry for the second consecutive year, according to the European Automobile Manufacturers Association (ACEA). The Morning ("Picanto" in Europe) has been particularly popular with European drivers looking for both economy and style. Sales took off in April 2004, and 58,625 Picanto were purchased during the year, making this mini-car model Kia's best seller in the European market.

The Picanto has been ranked first in the A segment in performance comparison tests conducted by leading automotive trade journals in Germany, the UK, Austria, and France. In August, 'Autocar', a UK's leading automobile magazine, pitted the Picanto against other mini-cars and praised it as "a car that has been built with kit and quality that pound for pound rivals a Mercedes S Class." The Picanto outscored Volkswagen Polo in a test by the German publication 'Autobild' in September.

European sales subsidiaries and dealers were the driving forces for success in the regional market. In particular, Kia Motors UK (KMUK) was named Britain's "2004 Car Franchise of the Year" by 'Motor Trader Magazine', the country's leading trade publication. The award was given in recognition of KMUK's dramatic business development, dealer network expansion, and dealer sales growth. The judges were unanimous in selecting Kia for the top honors. Also in 2004, KMUK's aggregate UK sales surpassed 100,000 units, a milestone achieved fourteen years after the first Pride was sold there in 1991.





On the strength of 60 years' know-how and experience, Kia Motors is creating a legacy in China.

Dongfeng Yueda Kia Motors Company Ltd. is rapidly growing. In 2004, the joint venture strengthened its lineup by adding the Carnival and Optima to the TianLiMa, a compact model designed specifically for the Chinese market. Dongfeng Yueda Kia Motors' sales reached 62,506 units, up 22.5% year on year for a 2.5% market share and 12th ranking among automakers doing business in China. Currently, a second plant with an annual capacity of 300,000 units is under construction. After its completion at the end of 2006, Kia's business growth in China will accelerate.

The TianLiMa has become very popular among the Chinese, and sales have continued to climb. A total of 101,586 units have been sold between December 2002 and the end of December 2004, making it China's best selling compact car.

The TianLiMa received wide acclaim by Chinese media and customers. The compact car was selected as "the most powerful model" at the 2003 Shanghai Motor Show and named as "the favorite car among youth" by the Beijing Youth Daily. The model was also listed as one of the fifty most influential products in the 50 years of the Chinese automobile industry by the China Association of Automotive Manufacturers.

In the 2004 customer satisfaction survey by the Chinese Quality Association, the TianLiMa came in Customer Satisfaction in the small car segment for ten items such as safety, performance, convenience, after-sales service and economy.





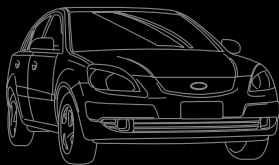
# No.1

Customer Satisfaction in the small car segment



The true value of Kia Motors comes from ceaseless innovation. Increases in units sold, sales revenue and unit price, coupled with higher corporate credit ratings, are all testament to

Gearing Up |



# For New

Kia Motors' rising stature as a global carmaker. Behind these impressive achievements lie passion and a commitment to excellence.





>> Kia Motors Slovakia (KMS), the plant under construction at Zilina, Slovakia, will have an annual capacity of 200,000 units, which can be expanded to 300,000, depending on the market conditions.

# Platform



>> The 2005 Opirus (exported as Amanti) boasts the new Lambda 3.8-liter V6 engine that was jointly developed with Hyundai Motor for the future generation top-of-the-line models.



>> Satisfied customers all over the world are driving Kia to make better products ever.

Kia Motors is aiming to join the ranks of the leading international automakers by building an R&D center in the US and offshore production facilities with a combined capacity of 730,000 units.

Ground was broken for Hyundai/Kia America Technical Center Inc. in Superior Township, near Detroit, Michigan, in April 2004. The project is an expansion and reorganization of the existing R&D operation at Ann Arbor, Michigan. Linked with the Design & Technical Center in Los Angeles and proving ground and test site in California's Mohave Desert, the new center will be equipped to design and test new models. With upgraded capabilities, the Michigan facility will control technology development of cars designed to satisfy local market requirements.

Kia Motors Slovakia (KMS), the plant under construction at Zilina, Slovakia, will have an annual capacity of 200,000 units, which can be expanded to 300,000, depending on the market conditions. The new plant is scheduled to be fully operational in the second half of 2006 and will produce compact sedans and recreational vehicles for sale in Europe.

Kia Motors is also planning a second plant at Yancheng, in China's Jiangsu Province. After completion at the end of 2006, the company will have combined annual output capacity of 430,000 units in China. Kia will be capable of producing a full lineup locally and aims to introduce a series of highly competitive new models to Chinese buyers.

KMS, Slovakia



- SOP: FY2006
- Capacity: 200-300k
- Ownership: 100%
- Line-up: C-seg Sedan, SUV

Europe Engineering Center, Germany

**Sohari Plant**



**Hwasung Plant**



**Gwangju Plant**



**Seosan Plant**



**Namyang R&D Center**



• Donghee Automotive

EAST SEA

**Japan R&D Center**

**DYK, China**



- Operation: FY2002
- Capacity: 130K(1st Plant)  
300K(2nd Plant)
- Ownership: JV 50%
- Line-up: TianLiMa, Optima,  
Carnival

**Hyundai-Kia America Technical Center**

• Groundbreaking : Apr 2004

**Hyundai-Kia Motors Design & Technical Center  
Hyundai-Kia Motors California Proving Ground**





Automobiles are an art form using advanced technology. Kia Motors is committed to innovative design, offering customers diverse options to satisfy personal tastes and needs.

• **Clear White**

Clean and uncomplicated as a basic color

• **Satin Silver**

Pure silver for a silky look, projecting a cyber image with depth and elegance

• **Grayish Silver**

Greater ruggedness than pure silver, the latest trend in silver hues

• **Greenish Gold**

Elegant gold with pale green, a popular trend recently



• **Cherry Black**

Pearl flake added for greater elegance and sophistication

• **Smart Blue**

Sporty and youthful, high color saturation, dynamic and appealing to younger people

• **Smoky Brown**

Brown a new favorite as a fashion statement



• **Vert Jade Pearl**

Pearl and metallic flakes portray add another dimension for a soft and enigmatic image

• **Natural Olive**

Green with yellow added, an environment-friendly color befitting SUVs, minivans and MPVs

• **Volcanic Red**

Rick color with sophisticated and passionate look, especially appealing to women

	Clear White
	Satin Silver
	Grayish Silver
	Greenish Gold
	Vert Jade Pearl
	Natural Olive
	Volcanic Red
	Smoky Brown
	Smart Blue
	Cherry Black

The Sportage compact SUV received the 2004 Korea Best Color Award in September, followed by the 2004 Korea Industrial Design Award in December. These accolades recognize sophisticated styling that exudes a youthful, progressive and refreshing feel.

"Sportage's design concept for the exterior was to blend the rugged and aggressive image of a traditional off-road vehicle with the contemporary sleekness that perfectly suits the urban lifestyle. The merged on- and off-road capabilities - well-proportioned exterior, enhanced power and superb functionality-let drivers fully experience the joy of driving."

*Chang-sik Min, Sportage Exterior Designer*

"The main focus of the interior design was to present masculinity and at the same time chic modernity. While trying to build on the strengths of the previous models, we placed a top priority on a sporty look and intelligent use of space with special emphasis on storage capability. Versatility was our theme for the interior."

*Nak-chool Ki, Sportage Interior Designer*

"The Sportage color selection was specifically intended to make the car internationally appealing. After conducting an extensive research on color preferences around the world, we adopted universally favored colors for the exterior. For the interior, we offer black for those who want tough and stout SUV image and beige for female customers who prefer more relaxing cabin"

*Il-hee Chung, Sportage Color Designer*

Kia Motors is intent on developing environment-friendly, innovative technologies that can set industry trends and on introducing high quality new models that meet increasingly diverse customer needs.



The advanced 3.6 Lambda V6 engine delivers high performance and high efficiency for better environmental friendliness. This next-generation power plant for full-sized sedans was co-developed by Kia Motors and Hyundai Motor.





The 2.0 CRDi common rail diesel engine boasts the best fuel efficiency (14.6km/liter for a 2WD manual transmission) of any Korean-build SUV.



The next-generation Theta engine provides better performance and efficiency, lasts longer, runs quieter and is more environmentally friendly than its predecessors.



The state-of-the-art 1.5 VGT diesel engine for passenger cars complies with Euro IV emission standards.

Kia Motors has put great emphasis on strengthening its technological capabilities. Concerted effort is being made to develop and mass-produce mid-/large sized Lambda engines, Alpha and Beta engines, U/D diesel engines(CRDi) for passenger cars and automatic transmissions for new compacts.

This year, Kia Motors and Hyundai Motor were jointly awarded the KT (Korea Technology) Mark by the Korea Industrial Technology Association (KOITA) in recognition of their development of a mid-size Theta gasoline engine and a small 4-speed automatic transmission. The environment-friendly and fuel efficient Theta engine has won global recognition for its superior performance. Daimler Chrysler and Mitsubishi Motors are names included in the buyers' list. The engine will be mounted on upcoming new models next year. Industry experts evaluate highly the new automatic transmission has improved fuel economy and gear shifting feel.

The 2005 Opirus (exported as Amanti) boasts the new Lambda 3.8-liter V6 engine that was jointly developed with Hyundai Motor for the future generation top-of-the-line models. This high performance quad-cam 24-valve power plant is a remarkable improvement from the previous 3.5-liter version, maximizing power and fuel economy.

The engine comes with Continuous Variable Valve Timing (CVVT), which electronically controls air intake to maximize engine performance according to engine speed. Aluminum has been used for the cylinder block to minimize engine weight. The new engine also features a redesigned low vibration and quieter timing chain and an iridium sparkplug that lasts for up to 160,000 kilometers. Also, an environment-friendly oil filter and new catalyst technology reduce exhaust emissions.

Kia Motors' is getting closer to customers by offering top quality new models.



### **CERATO EURO**

#### **Compact Sedan with a New Feel**

The Cerato is setting new trends in near mid-sized sedans, coupling attractive styling and responsive handling with a luxurious interior. This car promises a driving experience that will exceed all expectations.

### **OPIRUS**

#### **a Dream Sedan**

Any car fine enough to lead the times provides special satisfaction. The Opirus boasts the magnificent styling, cutting-edge technology and extravagant interior to be the trendsetter today. This is the ultimate sedan-the standard to which all other sedans aspire.



### **THE NEW PRIDE**

#### **the Excitement Continues**

That delightful little model that everyone loves is back. The moment you sit in the driver's seat you can feel the youthful passion from steering wheel design to pedals, switches and dashboard color and lighting. The allure and the excitement continue.



### **CARNIVAL**

#### **Korea's Best-selling Minivan**

The Carnival II promises stability and reliability under all driving conditions, with the looks and power to lead in its class. The noble character of this minivan remains unchanged over time, and its quality is well documented: The Carnival II is sold in over 70 countries, and it won top marks for customer satisfaction in the US.

## morning

### Running Free

The Morning is not just a car; it's your fashion statement designed for safety and that special feel. And the 1,000cc engine will provide a freedom that's yours alone. It will be love at first sight, and the car will continue to grow on you the longer you drive it.



## SPORTAGE

### One for All

The Sportage with luxurious European styling is the compact SUV of choice. It rides as comfortably and quietly as a sedan and boasts the highest safety performance in its class.



In February 2004 Kia Motors launched the Morning, a 1,000cc compact model that was developed specifically for quality, interior design and economy. This little vehicle is mainly aimed at overseas markets and successfully addresses driver safety issues experienced with 800cc subcompacts. Integrating the strengths of compacts, the Morning offers safe, convenient driving with excellent fuel efficiency. It is the perfect car for people who want freedom, independence, uniqueness and utility all in one.

The New Sportage debuted in August 2004, sporting elegant interior and exterior designs and state-of-the-art specifications. Designed as a compact SUV, it performs like a passenger car and is equipped with convenience features that make it easy and fun for anyone to drive. The New Sportage features sophisticated design, spacious cabin, efficient interior space utilization and great fuel economy (14.6Km/ , 2WD with manual transmission). Also, the new model earned the highest safety rating in crash tests conducted by the USDT National Highway Traffic Safety Administration. Clearly, such advantages are appealing to young drivers and frugal motorists alike.

The New Pride is the name of Kia's latest compact car, unveiled in January 2005. A total of 1.26 million fully assembled units of the original Pride were sold (700,000 in Korea and 560,000 overseas) between 1987 and 2000, when production was suspended. The main features of the New Pride include sleek styling with vivid exterior colors, the roomiest cabin in its class, and the highest horsepower (110hp) in the subcompact segment (ahead of the Chevrolet Aveo and Toyota Echo). The New Pride represents Kia Motors' confidence in the original Pride's popularity as a national brand.

## SORENTO

### a Beautiful Performer

More than powerful, the Sorento is beautiful. Curtain-type airbags and upgraded features take safety and luxury to new heights for added value and greater satisfaction.





# Satisfied customers all over the world are driving Kia to make better products ever.

Superb driving performance and design earned the Kia Cerato (exported as Spectra) "Car of the Year" in the economy car segment from the Automobile Journalist Association of Canada. Introduced in the Canadian market in February 2004, the Cerato was praised by the AJAC panel as a "very desirable car". The panel added that "Cerato's better features such as smooth handling and improved acceleration performance along with convenience and safety make it a global competitor."

Kia's premium sedan, Opirus (exported as Amanti) was named the "most delightful vehicle" by the San Diego based research firm, Strategic Vision, Inc. in the mid-sized car category. It reflects positive reception of the brand in the US market. Such achievements were made possible by Kia's continuous effort in quality enhancement, consequently boosting its brand image.

Kia Sorento was chosen as the Best Value SUV by the US Northwest Automotive Press Association in 2004. The 20 NWAPA members praised the Sorento as a "true performer and a real-world competitor in terms of standard equipment offerings, on- and off-road handling characteristics, safety, and overall quality."

The 2004 Carnival (exported as Sedona), which first won the Total Value Award by Strategic Vision in 2002, repeated as the winner in the minivan segment in which competition is the most fierce in 2004. Such achievements indicate that the Carnival's value is well recognized by its customers.



We dream the best automobile sales & service company.



You can imagine the quality life through us.



Kia considers people above all else, helping to make life more enjoyable and happier for everyone. For the future, environmental issues are a top priority at Kia Motors, while sports

Gearing Up |



# For Hum

are a means for sharing some fun.

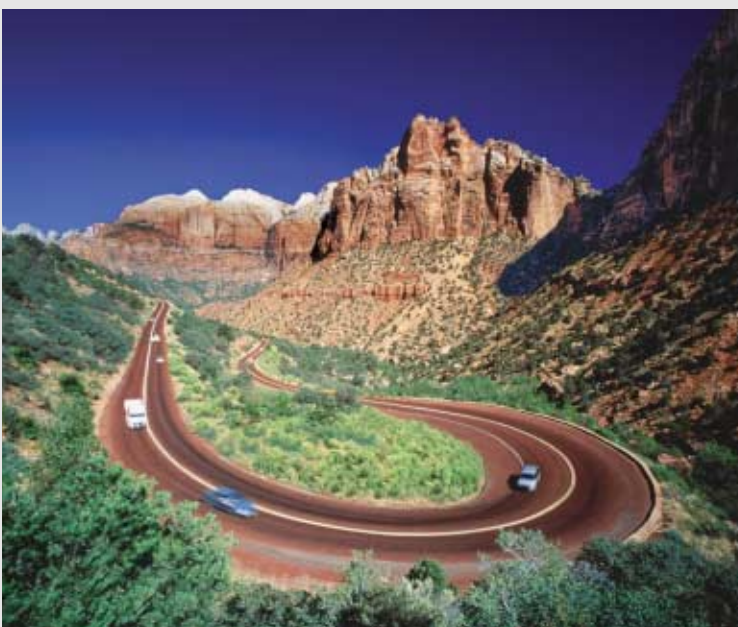
Kia aims to create the kinds of value that can be felt immediately, letting people get more out of happy life with their automobiles.



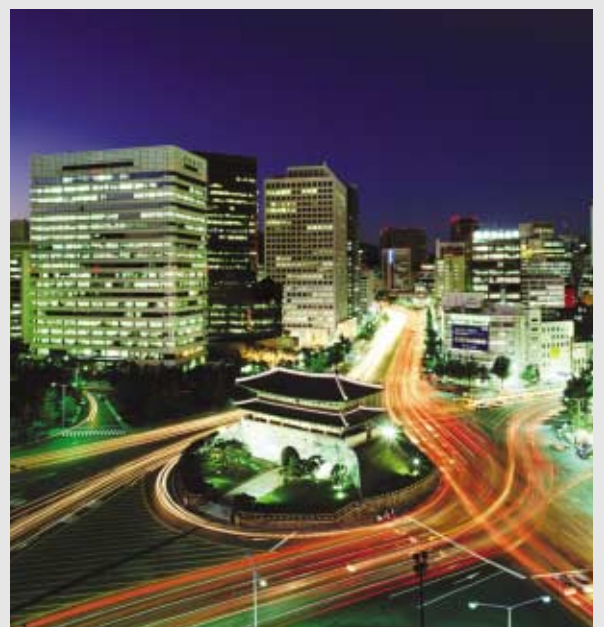


>> The slogan "The Power to Surprise" and sponsorship of major sporting events such as the Australian Open are helping to boost corporate image while promoting a healthy enjoyment of life.

# an Society



>> All Kia employees are aware of the need to protect the environment, and they are committed to minimizing the environmental impact from developing to producing vehicles.



>> The Kia slogan for social contribution activities is "a World that Moves Together," an expression of the company's ongoing commitment to creating a better world by partnering with society.



## Environment

All Kia employees are aware of the need to protect the environment, and they are committed to minimizing the environmental impact from developing to producing vehicles.








# a World Shared by All

Kia Motors became Korea's first to complete development of an electric vehicle in June 1986, and the company has continued to perfect EV technology ever since. In April 2004, Kia was selected to join the US Department of Energy's fuel cell electric vehicle (FCEV) test program. A demonstration fleet of second-generation Sportage FCEVs, equipped with hydrogen-powered fuel cells, will be deployed in major US cities for five years.

Kia's exemplary environment-friendly management initiatives, which include a new "clean production system" at the Gwangju plant, have also received their due recognition. The company was awarded the Presidential Environment Management Award in the Enterprise category at the 30th annual National Quality Management Conference, sponsored by the Ministry of Commerce, Industry & Energy in November 2004. All three plants in Korea were certified compliant with ISO 14001 requirements in 2003, and Kia Motors was designated an "Environment-friendly Enterprise" by the Ministry of Environment in 2004.





The slogan "The Power to Surprise" and sponsorship of major sporting events such as the Australian Open are helping to boost corporate image while promoting a healthy enjoyment of life.

E

Kia Motors has decided on the "Exciting & Enabling" theme for boosting brand image globally. This new brand identity is being applied to all areas of operation - products, designs, communication and services - to convey the unique benefits and image that Kia Motors can give its customers.

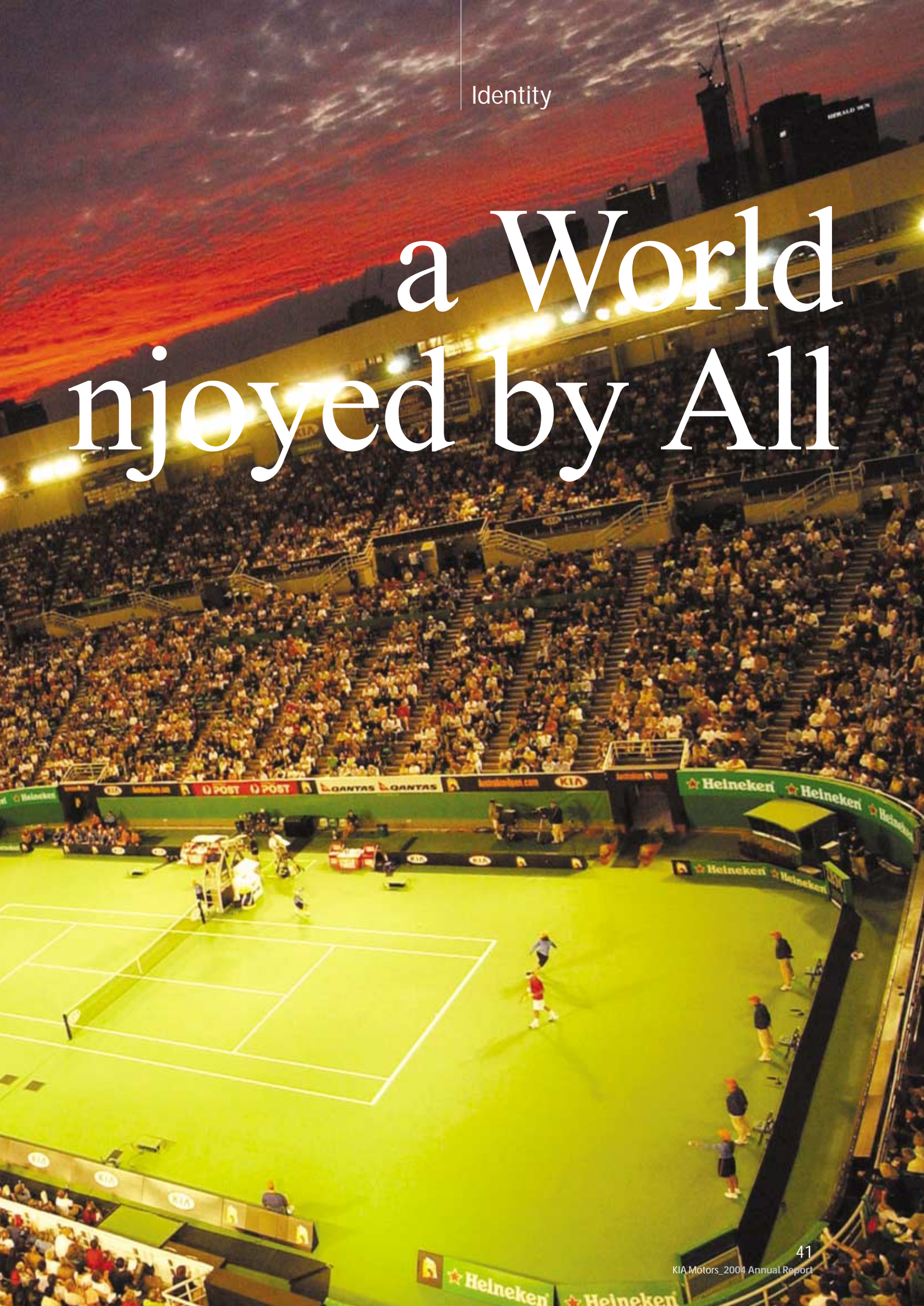
Kia has sponsored the World Inline Cup (WIC), an official event under the International Roller Sports Federation (FIRS), in major world cities. The company also launched the Kia-Verducci International Team, a world-class inline marathon club that has competed in the 2004 WIC tour. Inline skating exudes youthfulness, passion, power and speed - attributes that match well with the new image of a youthful and dynamic company that Kia wants to project to the world.

In addition, Kia is an official sponsor of the Australian Open, one of the world's four Grand Slam tennis tournaments, as well as the Davis Cup, a tennis match between countries. The company also sponsors the European Speed Skating Championships and Korean National Ski Jumping Team as part of this effort to build on the "Exciting & Enabling" theme.



Identity

# a World enjoyed by All





# a World that Moves To

In 2004, Kia Motors organized the Social Contribution Council, an organization that can approach community service issues in an integrated and systematic way. The council engages in a wide range of activities: volunteer work for Kia employees (community service projects, blood donation, food drives), traffic safety promotion (electric wheel chairs for disabled persons, medical care and rehabilitation equipment for traffic accident victims, traffic safety classes for children), contributions to provincial communities in Korea (support for joint research between companies and academic institutes, medical care and child care assistance for foreign workers) and environmental preservation initiatives (support for NGO campaigns, etc.).





# gether

The Kia slogan for social contribution activities is "a World that Moves Together," an expression of the company's ongoing commitment to creating a better world by partnering with society.

# Financial Gearing Up | Review



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## Sales Result

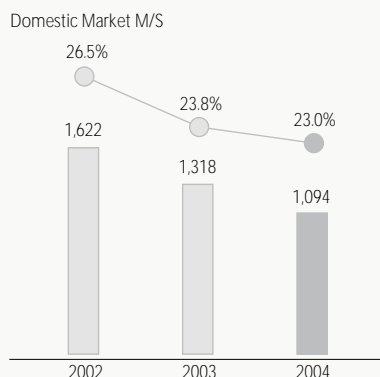
### 2004 Sales Result

Kia Motors (the Company) sold 250,643 built-up vehicles in Korea in 2004, down 22% from the previous year. However, exports went up 41% to 760,786 units, for 1,011,429 total built-up units sold, 18% higher than in 2003.

	2004	2003	2002
Sales (Units)	<b>1,011,429</b>	858,697	894,268
Domestic	<b>250,643</b>	319,795	444,444
Export	<b>760,786</b>	538,902	449,824
Sales (KRW in millions)	<b>15,257,742</b>	12,839,881	12,158,113
Domestic	<b>4,241,228</b>	5,126,358	6,304,394
Export	<b>11,016,514</b>	7,713,523	5,853,719
Cost of Sales (KRW in millions)	<b>12,421,361</b>	10,084,078	9,581,392
Cost of Sales Ratio	<b>81.4%</b>	78.5%	78.8%

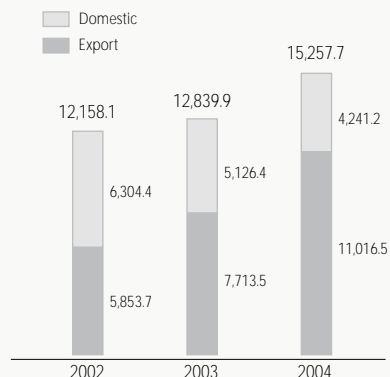
The Korean automobile industry suffered from sluggish domestic demand. Car sales declined as much as 17% from 1.32 million in 2003 to 1.09 million in 2004, the lowest level since 1990. Due to the dramatic sales drop such as down 39% for the minivan and down 30% for the light commercial vehicle, etc against 2003, the Company's domestic market share also fell 0.8% points from the previous year to 23%.

#### • Industrial Demand (Thousand Units)



\* Source: KAMA (Korea Automobile Manufacturers Association)

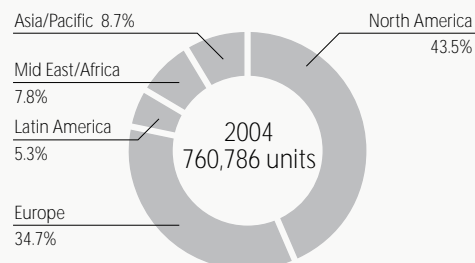
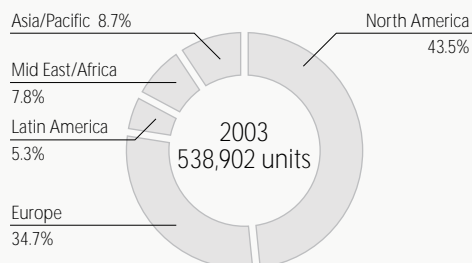
#### • Revenue (KRW in Billions)



However, boosted by the February launch of the Morning (Picanto), the passenger car share of the Company's domestic sales, which had declined for several years, rebounded to 33%. On top of that, the Sportage compact SUV came on the market with great popularity in August, reversing the declining sales of RVs (a category that includes SUVs, Mini-Vans and MPVs in Korea) caused by a new tax regime, higher diesel prices and changing government policy towards automobiles.

Despite the poor domestic sales, exports reached 760,786 units, or 41% higher than in 2003, making up for the poor domestic performance. The growth was seen globally, as sales were up 31% in the US, 69% higher in Europe, and 28% greater in the other foreign markets combined. In particular, European sales amounted to 264,412 units, representing 35% of total exports, up from 29% in 2003. Now Europe has nearly the same weight as the US in terms of exports for the Company.

#### • Export Breakdown by Region (Based on Number of Shipment Units)





## Management's Discussion & Analysis

US exports also continued to be on a roll, mainly boosted by rising sales of larger models such as the Sorento, Carnival (Sedona) and Opirus. Sales were up 31.4%, or around 72,000 units from the previous year, ranking the company second on in sales growth, behind Nissan out of the makers having over 200,000 units sold. However, the US share of the Company's total exports declined from 43% to 40%, as sales in other markets, especially Europe, rose up

The Company launched the Morning (Picanto) in Europe in April 2004, and record sales growth was achieved as soon as the new model was launched, while sales of the Sorento and Cerato remained robust. As a result, the Company exported 264,412 units to Europe in 2004, a 68.8% increase year on year, and 218,906 units were sold locally, a 48.7% gain from the previous year. The retail sales growth remained at the top in 2004 again. More importantly, the share of European exports in the Company's total export portfolio rose from 29% in 2003 to 35% in 2004.

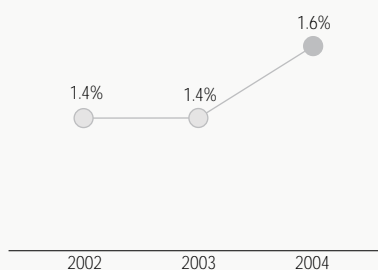
In other markets, which include Australia and Russia, sales were up for all models, and overall sales increased 27.5% against the previous year, contributing to the higher boosting export numbers.

### 2004 Retail Sales Results in Major Markets

#### US Market

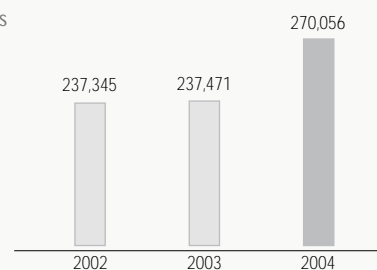
Although US demand stalled and the "Big Three" automakers offered extravagant incentives, the Company posted a 13.7% sales increase against the previous year, second to Nissan, which operates local manufacturing facilities in the US. The Company's market share rose 0.2% point to 1.6%, and the Sorento, Sedona (Carnival) and Optima continued to post blistering sales.

##### • US Market M/S



\* Source: Automotive News

##### • US Market Retail Sales Volume (Units)



\* Source: Company data

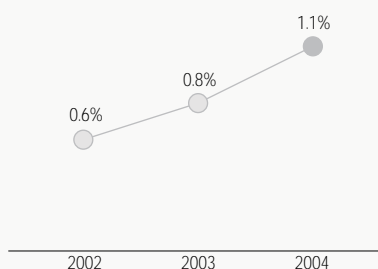
The power of the Kia brand continues to strengthen. In early 2004, the New Spectra (Cerato) made a successful market debut, and the Amanti (Opirus), the Company's flagship premium sedan, has joined the ranks of the world-class automobiles.

Furthermore, the Company's main strategic export model, the Sportage, went on the market in January, 2005. From mid-year, the JB (Rio/Pride), VQ, and MG will be added to the lineup and are expected to accelerate the Company's expanding presence in North America.

#### European Market

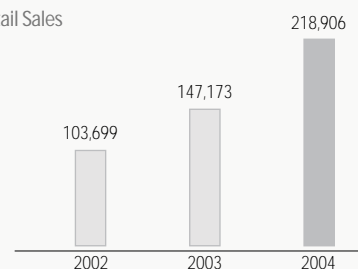
Thanks to strengthened sales networks and models catering to local consumer tastes, the Company sold 218,906 vehicles in Europe during 2004. That figure is 48.7% higher than in 2003, when sales growth jumped 41.9%. The Company's share of the European market has now surpassed a 1% mark for the first time. Evidenced highest growth rate of all automaker in Europe for the past two years, the Company's market expansion efforts are showing tangible results.

##### • European Market M/S



\* Source: ACEA (European Automobile Manufacturers Association)

##### • European Market Retail Sales Volume (Units)



\* Source: Company data

The strong sales in Europe resulted from the Company's stronger product mix. Diesel-powered Sorento and Carnival turned out solid sales numbers, and the Picanto entered the market with a vengeance.

Well received by British and German auto experts at its April market debut, the Kia mini-car beat the VW Polo in comparative evaluations. The Picanto was judged to be better than its rival from Volkswagen, which has led the mini-car segment for the past 30 years, in performance, durability, quality, price competitiveness and almost every other aspect. The favorable assessment led to soaring sales and helped elevate the Company's brand power.

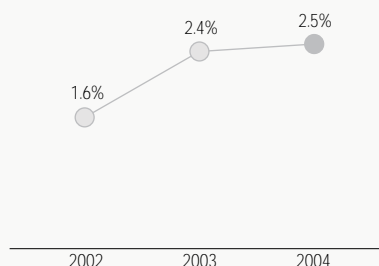
The Cerato has also done well, with features that satisfy European needs. Moreover, the recently launched Sportage is bolstering the Company's RV sales mix and should play a leading role in expanding market share in Europe.

To meet European customer needs, the Company will focus on new product development with high quality, elegant design, a diverse sales line-up and competitive prices. These efforts are expected to further raise the Company's exports to Europe.

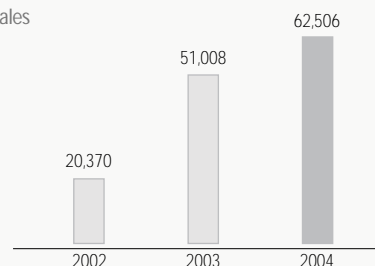
## China Market

From June 2004, the Chinese government imposed belt-tightening measures to cool an overheating economy. As a result, consumers had a harder time obtaining installment financing for new car purchases, and overall consumer confidence waned somewhat. As a result, the surging sales growth at the Company's Chinese subsidiary in 2003 slowed to 22.5% year on year in 2004, with 62,506 units sold.

### • China Market M/S



### • China Market Retail Sales Volume (Units)



\* Source: Company data

The TianLiMa, launched at the end of 2002, was an excellent choice for a new car in China and elevated recognition of the Kia name. With the introduction of the higher-priced Carnival in July and Optima in September, the Company hoped to make up for weakened profitability and to establish itself as a world-class player in China. However, rivals cut their prices as the new Kia models came out and consumer confidence declined, so the sales promotion campaigns for the new models got nowhere.

Profitability in 2004 was not as high as in 2003 because of discounts for the TianLiMa, higher marketing costs and increased overhead because of sluggish new model sales.

Despite the government belt-tightening measures, the automobile sales volume is expanding rapidly and competition is intensifying in China. To cope with these circumstances, the Company's Chinese subsidiary is building a second plant and will introduce additional new models.

The Company will also focus on marketing to expand market share and maximizing profitability. Marketing will not be limited to the TianLiMa, the No.1 small car on the 2004 customer satisfaction survey. The positive survey results will also be used to effectively promote the more profitable Carnival and Optima. This effort is aimed at increasing both overall sales and profits from China operations.

### • China Plant

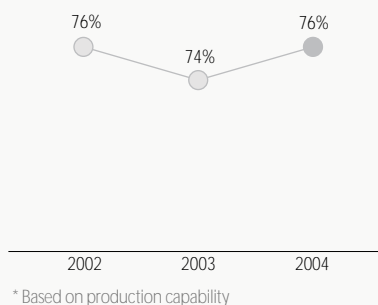
	China Plant #1	China Plant #2
Location	Yancheng, Jiangsu, China	
Ownership	Kia (50%), Dongfeng (25%), Yueda Group (25%)	
Paid-in-Capital	US\$ 70 million (Additional Equity Financing (Planned))	
Capacity	130K Units	300K Units (by the end of 2006)
Production Model	TianLiMa, Optima, Carnival	Full line-up

# Management's Discussion & Analysis

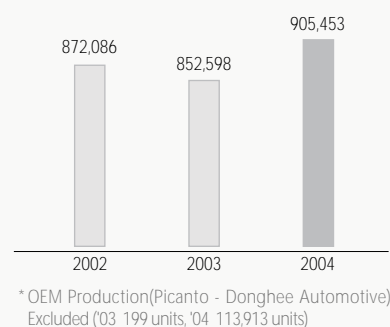
## Production & Utilization Rate

Domestic output for 2004 was 906K units, up 6.2% year on year, excluding the Morning (Picanto) units produced at Donghee Automotive, a partner with a plant in Seosan, Korea. The total breaks down as 251K units at Sohari, 470K at Hwasung, and 185K at Gwangju, which saw its annual plant capacity expand from 210K units to 350K units in 2004. Add 114K units of the Morning to the figure, and the total reaches 1.02 million, a 19.5% gain from the previous year.

### • Utilization Rate



### • Production (Units)



The plants operated at 76% of total capacity, slightly higher than in 2003. The small increase can be attributed to several factors: Mass production of the Sportage at Gwangju was delayed to ensure high quality, production lines at Sohari were halted temporarily to prepare for the models designed to replace the existing Rio and Carnival.

In 2005, the plant capacities at Sohari and Hwasung will be slightly adjusted in terms of units per hour (UPH), but overall annual capacity has been set at 1.25 million, similar to that of 2004. The Company plans to raise its utilization rate to 85% of total capacity.

At Seosan, Donghee Automotive will be commissioned to build 150,000 Mornings.

	Capacity	Production (2004)
Sohari	310,000 Units	250,753 Units
Hwasung	590,000 Units	470,142 Units
Seosan	150,000 Units	113,913 Units
Gwangju	350,000 Units	184,558 Units

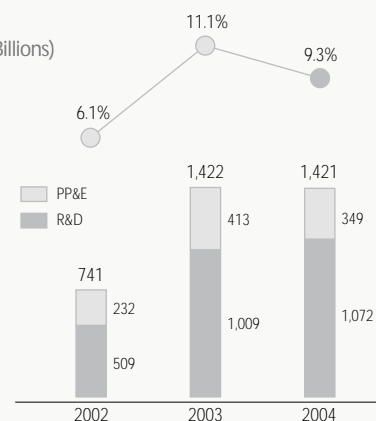
\* Annual Full Capacity 1,250,000 Units (OEM plant (Seosan) excluded)

## Capex

In 2004 investment was focused on new facilities and R&D. The Company increased productivity at three domestic plants, built a new engine and transmission plant and expanded existing ones and enhanced R&D for new models. The total investment amounted to ₩1.42 trillion, almost the same as in 2003. The ratio of investment to total sales was 9.3%, while R&D expenditures were 7% of total sales.

Overseas, the Company invested ₩113 billion to finance the ongoing construction of its Slovakia plant. Out of the Company's total investment for 2004, nearly ₩1.18 trillion was capitalized, which break down as ₩295 billion in intangible assets for R&D of new models, ₩533 billion in R&D-related tangible assets for new model production facilities, and ₩349 billion in tangible assets for existing facility expansion/improvement. Investments entered as intangible assets will be depreciated over 3 years starting with the launch of new models, and investments deemed tangible assets will be depreciated using the straight line method based on the number of years stipulated for individual categories.

### • CAPEX Trend (% of Revenue, KRW in Billions)



\* Increased R&D investments for product development

\* Expanding engine & transmission production facilities

\* PP&E investment for overhaul & rationalization of all plants (especially Gwangju plant)



## Credit Ratings

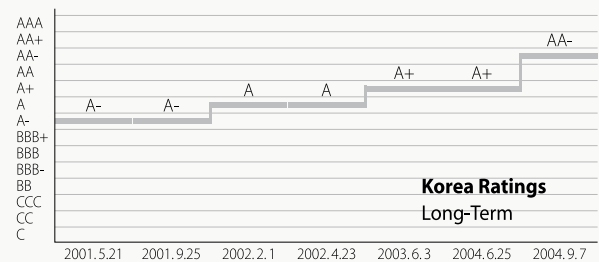
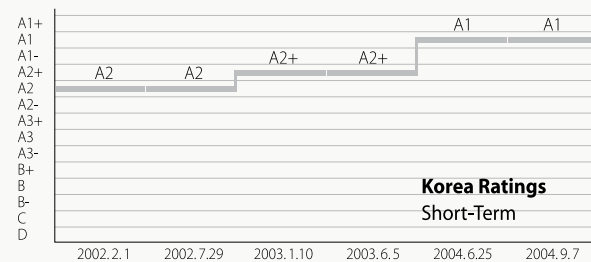
In November 2004, Moody's Investors Service raised its credit rating for Kia Motors two notches, from "Ba2" to the investment grade "Baa3". This is all the more meaningful because the credit rating agency is known for its conservative assessments.

Behind the upward revision lying Kia's efforts to upgrade its management and financial soundness, while the synergy effect from the merger with Hyundai Motors played a part. Kia's increasing share in the European and Chinese markets also helped boost its credit ratings. Despite additional plant construction in China and Europe, a stable financial status is projected, further strengthening its credit ratings.

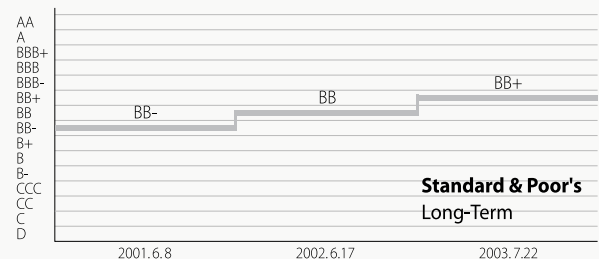
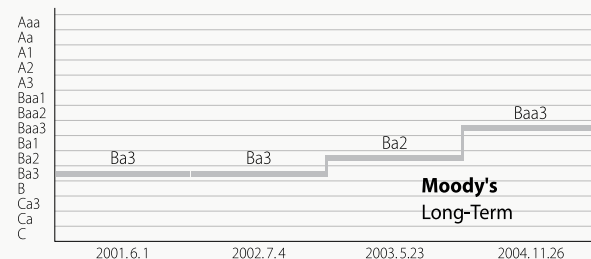
The profile of Kia Motors has also been bolstered as its short-term credit rating was revised upward by a domestic agency to top level ("A1"), while the long-term rating remaining at "AA-". Furthermore, the lower financial costs are likely to result in improved profit margins.

### • Credit Ratings Trend

#### [Domestic]



#### [Overseas]



## Brand Identity

In January 2005, the Hyundai-Kia Automotive Group announced the launch of its new global brand management strategy. Hyundai and Kia will pursue differentiated brand images as a means of boosting the Group's overall market share by targeting very different customers with different lifestyles. Under the new strategy, Hyundai and Kia will be promoted under separate brand slogans. The Hyundai slogan "Drive your way" is designed to communicate the company's "refined and confident" brand attributes, while the slogan "The Power to Surprise" is aimed at embodying the "exciting and enabling" values of the Kia brand.

	Hyundai	KIA
Brand Essence	Refined & Confident	Exciting & Enabling
Brand Slogan	"Drive your way" (emerge as a leading global brand, offering customers satisfaction and inspiration)	"The Power to Surprise" (continue developing new models that deeply impress customers and lead dynamic change)
Target Customer	Balanced modern	Self-confident, adventurous, and young at heart

A specialized TFT is dedicated to strategic and company-wide brand enhancement. The two automakers also apply consistent brand-enhancing schemes in the areas of product development, design, marketing, sales, and after-sales service. As the companies build marketing machines in the US, Europe, China and other overseas markets, consistency remains firm. Following are strategic action plans for the campaign:

1st phase (2005–2006: Establish foundations for brand management): Decide on brand direction and build a system for global brand assessment, detailed implementation to plan.

2nd phase (2007–2008: Bolster brand management): Unveil new models reflecting brand strategies, expand global brand strategies to all regions.

# Management's Discussion & Analysis

3rd phase (2009~2010: Accelerate brand management): Upgrade global brand management system.

As part of the efforts to improve brand power, Hyundai and Kia will instill differentiated brand images in customers' minds. This approach will expand the core customer base and increase profitability with brand power with the strength to match product quality. Over the long term, the two companies aim to join the ranks of the world's top five automakers and top 30 brands.

## Changes to Accounting in 2004

In 2004, the evaluation method for the Company's 18.2% stake in Hyundai Mobis was changed from the market value method to the equity method. The 2003 financial statements were revised to conform with the new accounting policy retroactively. As a result, assets and shareholders' equity for fiscal years 2003 and 2004 were each reduced by ₩679.5 billion and ₩729.1 billion. On the other hand, net income increased ₩84.1 billion for fiscal year 2004 and ₩64 billion for fiscal year 2003.

• Effect of change in accounting methods for preceding years

Korean won (in millions, except per share amount)

	2000	2001	2002	2003
Investment securities	₩ 333,029	₩ 499,272	₩ 764,453	₩ 1,291,049
Deferred income tax assets	458,978	641,772	569,977	554,119
Retained earnings	(765,977)	(279,674)	402,498	990,726
Capital adjustments	(329,715)	(20,739)	(7,357)	72,746
Ordinary income	396,366	462,677	857,572	944,429
Net income	349,146	579,605	680,407	769,393
Ordinary income per share	785	986	1,849	2,123
Earnings per share	785	1,495	1,849	2,123

## Profitability

Operating income to sales was 3.3% in 2004, lower than in 2003 despite higher sales volume and revenue. This can be attributed to some factors: the Won/Dollar rate, which fell ₩57 from the previous year to ₩1,135, lowered sales revenues, and higher raw material prices raised material cost. COGS to sales ratio rose 2.9% points, from 78.5% to 81.4%. Discounts were also increased in the domestic market, while sales of the high-value RVs fell in Korea.

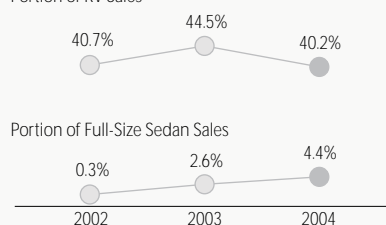
(Korean won in millions)

	2004	2003	2002
Sales	15,257,742	12,839,881	12,158,113
Operating Income	502,455	812,440	658,493
Operating Margin	3.3%	6.3%	5.4%
Net Income	690,569	769,393	680,407
Net Margin	4.5%	6.0%	5.6%
Earnings per Share(KRW)	1,972	2,123	1,849

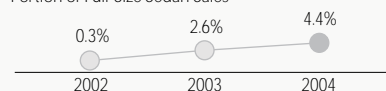
In terms of product mix, the passenger car segment accounted for 48.4% of total sales, up 10.6% points year on year. The change was led by sales of the Morning (Picanto), the company's strategic export model. On the other hand, the portion of RVs, the company's mainstream business, in the sales portfolio fell 4.3% points to 40.2%. RV sales continue to grow overseas, but the Korean mini-van market contracted in 2004.

• Product Mix Change

Portion of RV Sales

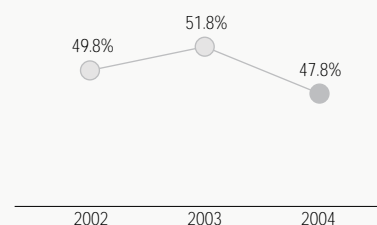


Portion of Full-Size Sedan Sales



\* Based on Sales Unit  
\* RV (SUV, Mini-Van, MPV)

• Portion of RV Sales Revenue  
(% of Total Revenue)





The average sales price (ASP) per unit rose 2% year on year to ₩15.4 million, despite major discount sales campaigns to stimulate sluggish domestic sales. On the other hand, export ASP rose 7% to \$12,000 thanks to the expanded sales of RVs and other higher priced models.

• ASP Change

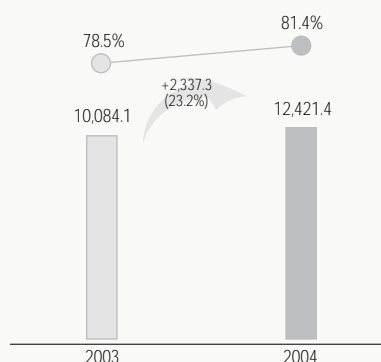


Cost of Goods Sold

COGS stood at ₩12.42 trillion in 2004, or 81.4% of total sales, while the ratio of material cost to total sales was 64.5%, up 3.1% points from 2003. The higher material cost ratio resulted from rising raw materials costs, revenues dampened by a stronger Won and discount sales in the sluggish domestic market, and sales expansion for the Morning (Picanto), which is produced on an OEM basis (recognized to material cost). Labor expense was 9.3% of total sales, up 0.1% points from the previous year because overtime work hours increased with the introduction of the five-day work week policy and performance incentives rose. The ratio of overhead cost to total sales was 7.6%, down 0.3% points.

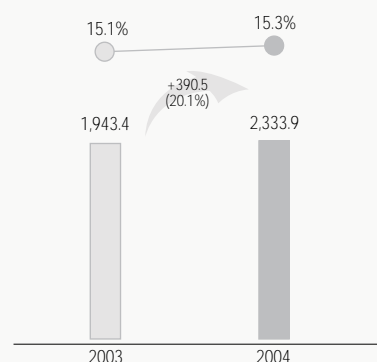
• COGS

(KRW in Billions,  
% of Revenue)



• SG&A

(KRW in Billions,  
% of Revenue)



SG&A Expenses

Selling, general and administrative expenses increased 20.1% (₩390.5 billion) to approximately ₩2.33 trillion, 15.3% of total sales, up 0.2% points year on year. The total labor expense also rose from the previous year, led by wage hikes and incentive payment increases, but labor expense to total sales slid 0.2% points. General administrative expenses rose 5.5% from the previous year, but its ratio to total sales declined 0.4% points to 2.6% because of higher sales.

Selling cost was 10.1% of total sales in 2004, up 0.8% points from the previous year. Growth in exports forced the company to pay much higher shipping charges and freight rates, while overseas advertising costs also escalated with intensified competition.

The ratio of warranty expense to total sales went slightly down to 2.8% from 3.2% in 2003. The marginal slide was mainly due to expanded sales of new vehicles with improved product quality, which allowed the company to face fewer warranty claims and lessen per-unit warranty reserve even though increased exports led to the growing number of vehicles under warranty and public recalls. Another factor is the Won/Dollar rate at the end of 2004 fell ₩154 from the previous year to ₩1,044. More than 85% of the Company's warranty provision is denominated as foreign currency, and the figure is converted into Won currency on the basis of the exchange rate at the end of the term. Therefore, the warranty expense fluctuates with the exchange rate. When the exchange rate fluctuation is not taken into account, the ratio of warrant expense to total sales is 3.4% in 2004, up 0.2% points year on year.

# Management's Discussion & Analysis

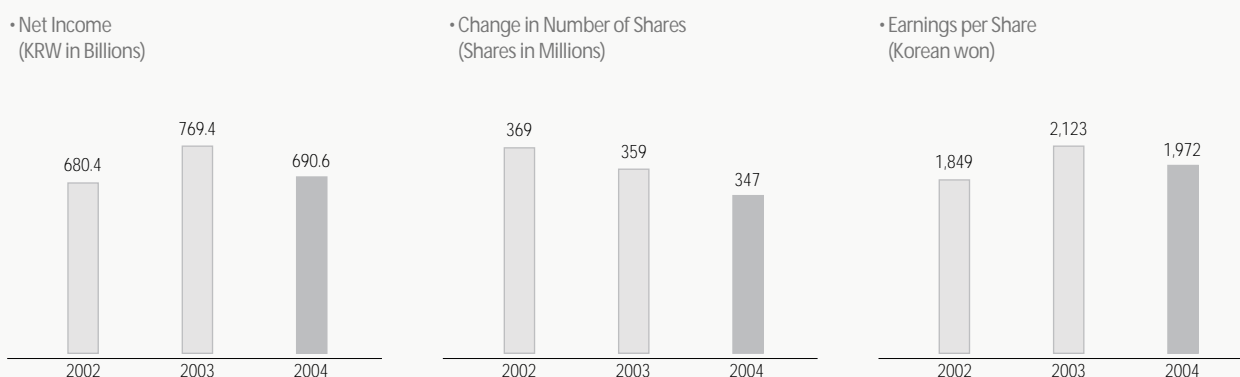
## Non-operating Income & Expenses

Non-operating income reached ₩899.5 billion in 2004, which was ₩310.8 billion higher than that for the previous year. There were several factors behind this rise. The gain on foreign exchange transactions, which is linked to exchange rate fluctuation, was up ₩192.2 billion. The Company won lawsuits against financial institutions, returning ₩84.2 billion of provision for bad debt. After performance results were announced on February 18, the evaluation method for Hyundai Mobis shares held by the Company was changed from the market value method to the equity method. Subsequently, the gain on equity evaluation method rose from ₩92.6 billion to ₩221.2 billion.

Non-operating expenses increased ₩115.8 billion year on year to ₩572.5 billion. This expense was prompted by ₩13.7 billion increase in interest expenses for short-term borrowings, ₩121 billion loss on equity evaluation method for the Company affiliates (Hyundai Card, etc.), and ₩23.3 billion loss on the sale of export trade receivables resulting from the higher export volume.

## Net Income / EPS / Income Taxes

The strong Won, increased discounts in domestic market, higher raw material prices and other factors caused operating income to fall 38.1% year on year. However, net income still amounted to ₩690.6 billion, a 10.2% drop from the previous year. The smaller rate in net profit decrease was due to non-operating income from gains on foreign exchange transactions and equity evaluation, and return of provision for bad debt. Earnings per share shrank 7.1% to ₩1,972. Income taxes fell 20.6% year on year, as net income was lower and tax incentives were increased for R&D and other facility investment.



## Assets

(Korean won in millions)

	2004	2003	2002
Assets	10,871,468	10,482,033	8,962,680
Liabilities	5,772,379	5,868,953	5,018,963
Shareholders' Equity	5,099,089	4,613,080	3,943,717
Debt-to-Equity Ratio	113.2%	127.2%	127.3%
Equity-to-Asset Ratio	46.9%	44.0%	44.0%

## Current Assets

Cash and cash equivalents declined 45.1% from the previous year to ₩790.5 billion. The drop stemmed from payments of matured borrowings, investment in affiliates, buyback and cancellation of Company stock and increased cash payments for materials used in exported vehicles.

Short-term financial instruments reached ₩770 billion, ₩270 billion increase from the previous year, thanks to efficient management of liquid assets. The share of "ultra-short-term" financial instruments with a maturity within 90 days shrank, but the share of relatively high-yield short-term financial instruments with various maturities increased in the Company's portfolio.



Trade receivables were down ₩155.7 billion year on year. The protracted slump in domestic market led to fewer issuances of domestic trade receivables and the company liquidated more of its export trade receivables as soon as possible. Inventories increased ₩193.9 billion from the previous year as a result of a rise in domestic inventory of built-up cars.

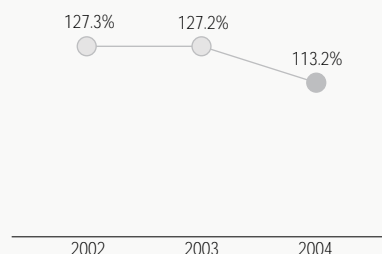
### Fixed Assets

The investment assets in fixed assets increased ₩245.2 billion year on year. During the same period, long-term investment securities and securities under equity method grew ₩307.3 billion. The gain was due to the following factors:

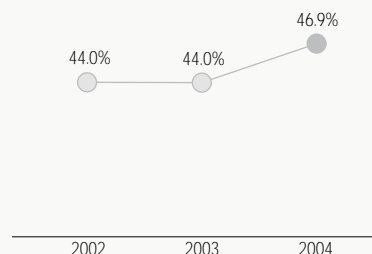
The Company acquired stocks of its affiliates and overseas subsidiaries to ensure smooth parts supply and boost exports. There were equity-method gains on stocks of Hyundai Mobis, Wia and Hyundai Hysco. Share prices for marketable securities such as INI Steel also rose on the stock market.

Tangible assets climbed ₩311.6 billion year on year, mainly driven by increased new investment in new model development and engine and transmission production facilities. At the same time, intangible assets also increased ₩157.4 billion because R&D expenses related to new versions of the Rio, Carnival (Sedona), Optima (Magentis) and Carens were capitalized.

#### • Debt-to-Equity Ratio



#### • Equity-to-Asset Ratio



### Current Liabilities

Trade accounts payable in 2004 grew ₩311.6 billion from the previous year, boosted by increases in material and component purchases due to expanded production of built-up cars. At the same time, short-term borrowings shrank ₩418.6 billion because increased exports provided more cash, and subsequently company issued ₩300 billion less commercial paper than in 2003 and repaid matured foreign currency borrowings, ₩79.6 billion. In addition, the current portion of debentures and current portion of long-term debt decreased ₩224.4 billion as they were repaid as matured borrowings.

### Long-term Liabilities

A total amount of debentures declined ₩200 million from the previous year. Although the company issued additional US\$200 million (₩229.4 billion) in corporate bonds, the dollar-denominated bonds produced ₩73 billion in gains on foreign exchange evaluation and were reclassified on the books as current debentures and current long-term debts within one year of maturity. The surge in overseas sales volume was expected to boost overall warranty provision (including both short and long term) significantly with the growing number of vehicles under warranty and expansion in recall provision. However, strong sales of vehicles with improved quality and the sharp fall in foreign exchange rate nudged the provision up to ₩815.2 billion.

### Shareholders' Equity

The stock option rights granted in 2000 were exercised to generate a ₩1 billion gain on the disposition of treasury stock, causing capital surplus to rise from the previous year. Net income of ₩690.6 billion was generated in 2004, but 2003 dividend payout of ₩125.4 billion was followed by ₩136.7 billion share buyback and cancellation in 2004 and other expenses. As a result, retained earnings increased ₩427.5 billion year on year. Meanwhile, total capital adjustment was increased by ₩57.5 billion from the previous year. The adjustments are as follows: Profit on paper (valuation income) increased ₩49 billion from the previous year as a result of higher prices for listed stocks held by the Company. On the other hand, the net loss on equity evaluation method rose ₩34.3 billion from the previous year, while the (-)₩41.6 billion that was held for capital adjustment of short-term derivative investment incurred in 2003 was invalidated in 2004.

# Independent Auditors' Report

## To the Shareholders and Board of Directors of Kia Motors Corporation:

We have audited the accompanying non-consolidated balance sheets of Kia Motors Corporation as of December 31, 2004 and 2003, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kia Motors Corporation as of December 31, 2004 and 2003, and the results of its operations, changes in its retained earnings and its cash flows for the years then ended in conformity with financial accounting standards in the Republic of Korea (see Note 2).

The translated amounts in the accompanying financial statements have been translated into U.S. dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

As explained in Notes 2 and 5, the Company early applied the Statements of Korea Accounting Standards - "SKAS" No. 15 - "Equity Method", and changed its accounting methods for the treatment of investment securities. As a result, total assets as of December 31, 2004 and opening shareholders' equity for 2004 have been reduced by ₩679,462 million (US\$650,950 thousand) and ₩729,099 million (US\$698,505 thousand), respectively, and net income have been increased by ₩84,072 million (US\$80,544 thousand), compared with the results based on the previous accounting methods. In addition, this change in accounting methods has been accounted for retrospectively and the comparative statements for 2003 have been restated.

As discussed in Note 14, the Company completed stock retirement of 12.5 million shares of treasury stock on May 28, 2004, which were acquired for ₩136,700 million (US\$130,964 thousand) for such retirement purposes based on the decision of the Board of Directors on March 19, 2004. The remaining shares of common stock are reduced from 359,730,455 shares to 347,230,455 shares.



Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are intended for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

Deloitte HanaAnjin LLC  
(A Member Firm of Deloitte Touche Tohmatsu)

Seoul, Korea  
March 5, 2005

#### Notice to Readers

This report is effective as of March 5, 2005, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

# Non-Consolidated Balance Sheets

As of December 31, 2004 and 2003

	Korean won (in millions)		Translation into U.S.dollars (Note 2) (in thousands)	
	2004	2003	2004	2003
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	₩ 790,517	₩ 1,438,661	\$ 757,345	\$ 1,378,292
Short-term financial instruments	770,000	500,000	737,689	479,019
Trade notes and accounts receivable, net of unamortized present value discount of ₩861 million in 2004 and ₩771 million in 2003, and allowance for doubtful accounts of ₩173,646 million in 2004 and ₩212,553 million in 2003 (Note 23)	342,213	460,910	327,853	441,569
Inventories (Notes 3 and 7)	869,653	675,739	833,161	647,384
Other receivables, net of unamortized present value ₩5,734 million in 2003, and allowance for doubtful accounts of ₩49,054 million in 2004 and ₩109,382 million in 2003 (Note 23)	100,858	125,818	96,626	120,539
Advances and other current assets, net of allowance for doubtful accounts of ₩35,746 million in 2004 and ₩33,822 million in 2003	53,271	50,166	51,036	48,060
Total current assets	2,926,512	3,251,294	2,803,710	3,114,863
Non-current assets:				
Long-term investment securities, net of unamortized present value discount of ₩5,234 million in 2003 (Note 4)	278,611	239,941	266,920	229,873
Equity securities accounted for using the equity method (Note 5)	1,319,714	1,051,108	1,264,336	1,007,001
Property, plant and equipment, net of accumulated depreciation of ₩2,383,944 million in 2004 and ₩2,151,627 million in 2003 (Notes 6 and 7)	4,974,908	4,663,359	4,766,151	4,467,675
Intangibles, net of amortization (Note 8)	611,244	453,814	585,595	434,771
Deferred income tax assets (Note 19)	529,445	554,119	507,228	530,867
Other assets (Note 9)	231,034	268,398	221,339	257,135
Total non-current assets	7,944,956	7,230,739	7,611,569	6,927,322
Total assets	₩ 10,871,468	₩ 10,482,033	\$ 10,415,279	\$ 10,042,185



	Korean won (in millions)		Translation into U.S.dollars (Note 2) (in thousands)	
	2004	2003	2004	2003
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current liabilities:				
Short-term borrowings (Note 10)	₩ 371,323	₩ 789,942	\$ 355,742	\$ 756,794
Current maturities of long-term debt and debentures, net of discount on debentures issued of ₩140 million in 2004 and ₩571 million in 2003 (Note 11)	257,754	482,138	246,938	461,906
Trade notes and accounts payable (Note 23)	1,986,007	1,674,366	1,902,670	1,604,106
Accrued warranties	274,421	259,415	262,906	248,529
Accounts payable-other (Note 23)	626,554	475,937	600,262	455,966
Accrued expenses and other current liabilities	109,420	157,232	104,828	150,635
Total current liabilities	3,625,479	3,839,030	3,473,346	3,677,936
Long-term liabilities:				
Long-term debt and debentures, net of current maturities and net of discount on debentures issued of ₩2,769 million in 2004 and ₩3,477 million in 2003 (Note 11)	1,062,142	870,278	1,017,572	833,759
Accrued severance benefits, net of National Pension paid for employees of ₩39,691 million in 2004 and ₩44,892 million in 2003, and individual severance insurance deposits of ₩869,624 million in 2004 and ₩771,330 million in 2003 (Note 2)	527,762	523,846	505,616	501,864
Derivative instruments credit (Note 22)	-	96,880	-	92,815
Long-term accrued warranties	540,809	519,061	518,116	497,280
Other long-term liabilities	16,187	19,858	15,508	19,026
Total long-term liabilities	2,146,900	2,029,923	2,056,812	1,944,744
Total liabilities	5,772,379	5,868,953	5,530,158	5,622,680
Commitments and contingencies (Note 12)				
	-	-	-	-
Shareholders' equity:				
Capital stock (Note 14)	1,848,652	1,848,652	1,771,079	1,771,079
Capital surplus (Note 15)	1,701,955	1,700,956	1,630,537	1,629,580
Retained earnings (Net income of ₩690,569 million in 2004 and ₩769,393 million in 2003) (Note 16)	1,418,241	990,726	1,358,729	949,153
Capital adjustments (Note 17)	130,241	72,746	124,776	69,693
Total shareholders' equity	5,099,089	4,613,080	4,885,121	4,419,505
Total liabilities and shareholders' equity	₩ 10,871,468	₩ 10,482,033	\$ 10,415,279	\$ 10,042,185

# Non-Consolidated Statements of Income

For the Years Ended December 31, 2004 and 2003

	Korean won (in millions, except per share amounts)		Translation into U. S. dollars (Note 2) (in thousands, except per share amounts)	
	2004	2003	2004	2003
Sales (Note 25)	<b>₩ 15,257,742</b>	<b>₩ 12,839,881</b>	<b>\$ 14,617,496</b>	<b>\$ 12,301,093</b>
Cost of sales	<b>12,421,361</b>	10,084,078	<b>11,900,135</b>	9,660,929
Gross profit	<b>2,836,381</b>	2,755,803	<b>2,717,361</b>	2,640,164
Selling and administrative expenses (Note 24)	<b>2,333,926</b>	1,943,363	<b>2,235,990</b>	1,861,815
Operating income	<b>502,455</b>	812,440	<b>481,371</b>	778,349
Other income (expenses), net:				
Interest income, net	<b>16,361</b>	32,837	<b>15,674</b>	31,458
Foreign exchange gain (loss), net	<b>170,871</b>	(1,579)	<b>163,701</b>	(1,513)
Reversal of allowance for doubtful accounts	<b>90,396</b>	6,251	<b>86,603</b>	5,989
Loss on retirement of inventories	<b>(5,844)</b>	(3,395)	<b>(5,599)</b>	(3,253)
Gain on valuation of equity securities accounted for using the equity method, net (Note 5)	<b>58,545</b>	153,781	<b>56,088</b>	147,328
Loss on disposal of accounts receivable	<b>(57,270)</b>	(33,965)	<b>(54,867)</b>	(32,540)
Gain on disposal of investments, net	<b>10,221</b>	5,563	<b>9,792</b>	5,330
Impairment loss of investments (Note 5)	<b>(185)</b>	–	<b>(177)</b>	–
Loss on valuation of derivatives (Note 22)	<b>–</b>	(48,820)	<b>–</b>	(46,771)
Loss on disposal of property, plant and equipment, net	<b>(40,723)</b>	(55,755)	<b>(39,014)</b>	(53,415)
Other	<b>84,642</b>	77,071	<b>81,091</b>	73,837
	<b>327,014</b>	131,989	<b>313,292</b>	126,450
Ordinary income	<b>829,469</b>	944,429	<b>794,663</b>	904,799
Extraordinary item	<b>–</b>	–	<b>–</b>	–
Income before income tax	<b>829,469</b>	944,429	<b>794,663</b>	904,799
Income tax expense (Note 19)	<b>138,900</b>	175,036	<b>133,072</b>	167,691
Net income	<b>₩ 690,569</b>	<b>₩ 769,393</b>	<b>\$ 661,591</b>	<b>\$ 737,108</b>
Basic ordinary income per common share (Note 2)	<b>₩ 1,972</b>	<b>₩ 2,123</b>	<b>\$ 1.89</b>	<b>\$ 2.03</b>
Diluted ordinary income per common share (Note 2)	<b>₩ 1,970</b>	<b>₩ 2,121</b>	<b>\$ 1.89</b>	<b>\$ 2.03</b>
Basic earnings per common share (Note 2)	<b>₩ 1,972</b>	<b>₩ 2,123</b>	<b>\$ 1.89</b>	<b>\$ 2.03</b>
Diluted earnings per common share (Note 2)	<b>₩ 1,970</b>	<b>₩ 2,121</b>	<b>\$ 1.89</b>	<b>\$ 2.03</b>



## Non-Consolidated Statements of Appropriation of Retained Earnings

	Korean won (in millions)		Translation into U.S.dollars (Note 2) (in thousands)	
	2004	2003	2004	2003
Unappropriated retained earnings:				
Beginning of year	₩ 150,379	₩ 597	\$ 144,069	\$ 572
Changes in retained earnings using the equity method	(906)	85,678	(868)	82,082
Stock retirement as a deduction of retained earnings (Note 14)	(136,701)	(88,742)	(130,965)	(85,018)
Net income	690,569	769,393	661,591	737,108
	703,341	766,926	673,827	734,744
Appropriations:				
Legal reserve	12,200	12,600	11,688	12,071
Reserve for technology development	569,900	478,500	545,986	458,420
Cash dividends (Note 20)	121,174	125,447	116,089	120,184
	703,274	616,547	673,763	590,675
Unappropriated retained earnings, end of year	₩ 67	₩ 150,379	\$ 64	\$ 144,069

# Non-Consolidated Statements of Cash Flows

For the Years Ended December 31, 2004 and 2003

	Korean won (in millions)		Translation into U.S.dollars (Note 2) (in thousands)	
	2004	2003	2004	2003
Cash flows from operating activities:				
Net income	₩ 690,569	₩ 769,393	\$ 661,591	\$ 737,108
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	524,969	468,105	502,940	448,462
Provision for severance benefits	229,526	209,909	219,895	201,101
Provision for warranties	329,468	344,610	315,643	330,149
Reversal of allowance for doubtful accounts	(90,396)	(6,251)	(86,603)	(5,989)
Loss (Gain) on foreign currency translation, net	(134,115)	19,338	(128,487)	18,527
Loss on retirement of inventories	5,844	3,395	5,599	3,253
Gain on valuation of equity securities accounted for using the equity method, net	(58,545)	(153,781)	(56,088)	(147,328)
Gain on disposal of investments, net	(10,221)	(5,563)	(9,792)	(5,330)
Impairment loss of investments	185	–	177	–
Loss on disposal of property, plant and equipment, net	40,723	55,755	39,014	53,415
Amortization of present value discount	(2,839)	(6,597)	(2,720)	(6,320)
Amortization of discount on debentures issued, net	643	2,452	616	2,349
Compensation expenses on stock options, net	589	1,064	564	1,019
Loss on valuation of derivatives	–	48,820	–	46,771
Loss on disposal of accounts receivable	57,270	33,965	54,867	32,540
Miscellaneous loss	18,148	–	17,386	–
Changes in operating assets and liabilities:				
Decrease in trade notes and accounts receivable	85,117	122,675	81,545	117,527
Decrease (Increase) in long-term notes and accounts receivable	(1,891)	4,731	(1,812)	4,532
Increase in inventories	(199,758)	(194,115)	(191,376)	(185,970)
Decrease in advances and other receivables	92,972	18,266	89,071	17,500
Decrease (Increase) in other current assets	(5,705)	35,469	(5,466)	33,981
Decrease in deferred income tax assets	24,674	15,858	23,639	15,193
Increase in trade notes and accounts payable	311,807	95,160	298,723	91,167
Increase (Decrease) in accounts payable-other	152,074	(74,981)	145,693	(71,835)
Increase (Decrease) in other current liabilities	1,982	(11,153)	1,899	(10,685)
Increase (Decrease) in corporate income tax payable	(49,705)	23,912	(47,619)	22,909
Payment of warranties	(292,714)	(311,859)	(280,431)	(298,773)
Payment of severance benefits	(133,368)	(64,145)	(127,772)	(61,453)
Other	6,052	3,200	5,799	3,066
	₩ 1,593,355	₩ 1,447,632	\$ 1,526,495	\$ 1,386,886

	Korean won (in millions)		Translation into U.S.dollars (Note 2) (in thousands)	
	2004	2003	2004	2003
Cash flows from investing activities:				
Cash inflows from investing activities:				
Proceeds from withdrawal of short-term financial instruments	₩ -	₩ 260,131	\$ -	\$ 249,215
Proceeds from disposal of short-term investment securities	1,620	9,533	1,552	9,133
Collection of short-term loans	-	17,778	-	17,032
Proceeds from withdrawal of long-term financial instruments	28,128	3	26,948	3
Proceeds from disposal of long-term investment securities	27,185	15,846	26,044	15,181
Dividends from equity securities	28,500	9,701	27,304	9,294
Proceeds from disposal of property, plant and equipment	167,372	90,641	160,349	86,838
Reduction in other assets	86,574	47,038	82,941	45,064
	339,379	450,671	325,138	431,760
Cash outflows from investing activities:				
Acquisition of short-term financial instruments	270,000	-	258,670	-
Acquisition of long-term investment securities	11,876	50,763	11,378	48,633
Acquisition of equity securities accounted for using the equity method	273,927	222,394	262,432	213,062
Acquisition of property, plant and equipment	913,584	1,018,305	875,248	975,575
Acquisition of intangible assets	296,162	222,792	283,734	213,442
Additions to other assets	191,755	153,790	183,709	147,337
	1,957,304	1,668,044	1,875,171	1,598,049
	(1,617,925)	(1,217,373)	(1,550,033)	(1,166,289)
Cash flows from financing activities:				
Cash inflows from financing activities:				
Proceeds from short-term borrowings	-	737,756	-	706,798
Proceeds from long-term debt	328,474	2,746	314,691	2,631
Proceeds from issuance of debentures	228,501	-	218,913	-
Proceeds from exercise of stock options	1,594	1,647	1,527	1,578
Other	1,224	3,083	1,171	2,954
	559,793	745,232	536,302	713,961
Cash outflows from financing activities:				
Repayment of short-term borrowings	412,305	-	395,004	-
Repayment of current maturities of debentures	369,780	-	354,263	-
Repayment of long-term debt and current maturities of long-term debt	134,243	117,512	128,611	112,581
Acquisition and retirement of treasury stock	136,700	88,742	130,964	85,018
Payment of cash dividend	125,444	92,023	120,180	88,162
Other	4,895	2,292	4,689	2,196
	1,183,367	300,569	1,133,711	287,957
	(623,574)	444,663	(597,409)	426,004
Net increase (decrease) in cash and cash equivalents	₩ (648,144)	₩ 674,922	\$ (620,947)	\$ 646,601
Cash and cash equivalents, beginning of year	₩ 1,438,661	₩ 763,739	\$ 1,378,292	\$ 731,691
Cash and cash equivalents, end of year	₩ 790,517	₩ 1,438,661	\$ 757,345	\$ 1,378,292



# Notes to Non-Consolidated Financial Statements

As of December 31, 2004 and 2003

## **1. THE COMPANY:**

Kia Motors Corporation (the Company), incorporated in December 1944 under the laws of the Republic of Korea, is one of the leading motor vehicle manufacturers in Korea, producing and offering for sale a range of passenger cars, recreational vehicles and commercial vehicles, both in the domestic and export markets. The Company owns and operates three principal automobile production bases: the Sohari factory, the Hwasung factory and the Kwangju factory. The shares of the Company have been listed on the Korea Stock Exchange since 1973.

Overseas subsidiaries for export sales include Kia Motors America, Inc. (KMA) in America, Kia Canada, Inc. (KCI) in Canada, Kia Motors Deutschland GmbH (KMD) and Kia Motors Europe GmbH (KME) in Germany.

Also, the Company established an overseas assembly subsidiary in Zilina, Slovak Republic on February 26, 2004, as a progressive step to secure production capacity within Europe. The construction of the plant in Zilina is in progress and will roll off the line by the end of 2006.

As of December 31, 2004, the largest shareholder is Hyundai Motor Company, which holds 38.7 percent of the Company's stock.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

### **BASIS OF FINANCIAL STATEMENT PRESENTATION**

The Company maintains its official accounting records in Korean won and prepares statutory non-consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

The U.S. dollar amounts presented in these financial statements were computed by translating the Korean won into U.S. dollars based on the Basic Rate announced by Seoul Money Brokerage Services, Ltd. of ₩1043.80 to US \$1.00 at December 31, 2004, solely for the convenience of the reader. This convenience translation into U.S. dollars should not be construed as a representation that the Korean won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

### **IMPLEMENTATION OF STATEMENTS OF KOREA ACCOUNTING STANDARDS**

The Company prepared its non-consolidated financial statements as of December 31, 2004 in accordance with the existing Korea Financial Accounting Standards and the Statements of Korea Accounting Standards ("SKAS") No. 10 - "Inventories", No. 12 - "Construction Contracts", No. 13 - "Troubled Debt Restructurings and No. 15 - "Equity Method". The Company has applied SKAS No. 2 - "Interim Financial Reporting", No. 3 - "Intangible Assets", No. 4 - "Revenue Recognition", No. 5 - "Tangible Assets", No. 8 - "Investments in Securities" and No. 9 - "Convertible Securities" since the year ended December 31, 2003.

In conformity with SKAS No. 10 - Inventories, the Company changed the accounting method for recognition of valuation loss incurred when the market value of an inventory falls below its carrying amount as cost of goods sold instead of other expenses. Also, the Company early applied the SKAS No. 15 - "Equity Method", and changed its accounting methods for the treatment of investment securities.

As a result, total assets as of December 31, 2004 and opening shareholders equity for 2004 have been reduced by ₩679,462 million (US\$650,950 thousand) and ₩729,099 million (US\$698,505 thousand), respectively, and net income have been increased by ₩84,072 million (US\$80,544 thousand), compared with the results based on the previous accounting methods.

In addition, this change in accounting methods has been accounted for retrospectively and the comparative statements for 2003 have been restated.

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below.

#### REVENUE RECOGNITION

Sales, including long-term instalment sales, are recognized at the time of shipment of motor vehicles and parts, which is when the significant risks and rewards of ownership of the goods have been transferred to the buyer. The interest income arising from long-term instalment sales contracts is recognized using the level yielding method.

#### ACCRUED WARRANTIES

The Company generally provides a warranty to the ultimate consumer for each product sold and accrues warranty expense at the time of sale based on actual claims history. Also, the Company accrues potential expenses, which may occur due to product liabilities suits and voluntary recall campaign pending as of the balance sheet date. Additionally, the Company recognizes accrued liabilities of the provision for the projected costs for dismantling and recycling vehicles that the Company sold in European Union region to comply with a European Parliament directive regarding End-of-Life Vehicles (ELV), in which manufacturers are financially responsible for a portion of the cost of the dismantling and recycling of vehicles placed in service (See Note 12).

#### ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company provides an allowance for doubtful accounts based on management's estimate of the collectibility of the receivables.

#### INVENTORIES

Inventories are stated at the lower of cost or net realizable value, cost being determined by the moving average method except for materials in transit for which cost is determined using the specific identification method. Valuation loss incurred when the market value of an inventory falls below its carrying amount is added to the cost of goods sold.

#### INVESTMENTS IN SECURITIES OTHER THAN THOSE ACCOUNTED FOR USING THE EQUITY METHOD

##### CLASSIFICATION OF SECURITIES

At acquisition, the Company classifies securities into one of the three categories: trading, held-to-maturity securities or available-for-sale. Trading securities are those that were acquired principally to generate profit from short-term fluctuations in prices. Held-to-maturity securities are those with fixed or determinable payments and fixed maturity that an enterprise has the positive intent and ability to hold to maturity. Available-for-sale securities are those not classified either as held-to-maturity or trading securities. Trading securities are classified as short term investment securities, whereas available-for-sale securities and held-to-maturity securities are classified as long-term investment securities, except for those whose maturity dates or whose likelihood of being disposed of are within one year from the balance sheet date, which are classified as short-term investment securities.

#### VALUATION OF SECURITIES

Investments in securities are initially measured at cost, which consists of the market price of the consideration given to acquire them and incidental expenses. If the market price of the consideration given is not available, the market prices of the securities purchased are used as the basis for measurement. If neither the market price of the consideration given nor those of the acquired securities are available, the acquisition cost is measured at the best estimates of its fair value.

After initial recognition, held-to-maturity securities are valued at amortized cost. The difference between their acquisition costs and face values is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the

# Notes to Non-Consolidated Financial Statements

As of December 31, 2004 and 2003

remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available-for-sales securities are also valued at fair value, with unrealized holding gains or losses recognized in capital adjustments, until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of capital adjustments are reflected in current operations. However, available-for-sales securities that are not traded in an active market and whose fair value cannot be reliably measured are valued at cost.

If the estimated recoverable amount of securities is less than the acquisition cost of equity securities or amortized cost of debt securities and any objective evidence for such impairment loss exists, impairment loss is recognized in current operations in the period when it arises.

## EQUITY SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD

Equity securities held for investment in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. The Company's share in the net income or net loss of investees is reflected in current operations. The changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings or to capital adjustments.

## PROPERTY, PLANT AND EQUIPMENT AND RELATED DEPRECIATION

Property, plant and equipment are stated at cost, except for assets revalued upward in accordance with the Asset Revaluation Law of Korea. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are treated as additions to property, plant and equipment.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Useful lives (years)
Buildings and structures	20-40
Machinery and equipment	15
Tools, dies and molds	5
Vehicles	5
Office equipment	5

The Company charges all financing cost to current operations in accordance with SKAS No. 7 - Capitalization of Financing Costs. In addition, the Company assesses possible recognition of impairment loss when there is an indication that expected future economic benefits of an asset is considerably less than its carrying amount, as a result of technological obsolescence or rapid declines in market value. When it is determined that an asset may have been impaired and that its estimated total future cash flows from continued use or disposal is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the difference is recognized as an impairment loss. If the recoverable amount of the impaired asset exceeds its carrying amount in subsequent reporting period, the amount equal to the excess is treated as the reversal of the impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss been recognized.

## INTANGIBLES

Intangible assets are stated at cost, net of amortization computed using the straight-line method over the estimated economic useful lives of related assets. Development costs are amortized over the estimated economic useful life (not exceeding three years) from the usable date of the related productions. Ordinary development and research expenses are charged to current operations. Cost in excess of net identifiable assets acquired (goodwill) is amortized over five years and industrial property rights and other intangibles are amortized over the period between five and ten years. If the recoverable amount of an intangible asset becomes less than its carrying amount as a result of obsolescence, sharp decline in market value or other causes of impairment, the carrying amount of the intangible asset is reduced to its recoverable amount and the reduced amount is recognized as impairment loss. If the recoverable amount of a previously impaired intangible asset exceeds its carrying amount in subsequent periods, an amount equal to the excess shall be recorded as reversal of impairment loss; however, it shall not exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years.



## VALUATION OF RECEIVABLES AND PAYABLES AT PRESENT VALUE

Receivables and payables arising from long-term installment transactions, long-term cash loans (borrowings) and other similar loan (borrowing) transactions are stated at present value, if the difference between nominal value and present value is material. The present value discount is amortized using the effective interest rate method, and the amortization is included in interest expense or interest income. As of December 31, 2004 and 2003, an interest rate of 8.25 percent and 10.0 percent is used, respectively, in valuing the receivables and payables at present value. Also, the Company recognizes impairment loss and records the loss as allowance for doubtful accounts and bad debt expense when collection of receivables in accordance with the original schedule has become impossible due to restructuring of the receivables.

## ACCRUED SEVERANCE BENEFITS

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the Company, based on their length of service and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees were to resign amount to ₩1,437,077 million (US\$1,376,774 thousand) and ₩1,340,068 million (US\$1,283,836 thousand) as of December 31, 2004 and 2003, respectively.

Accrued severance benefits are approximately 61 percent and 58 percent funded at December 31, 2004 and 2003, respectively, through an individual severance insurance plan. Individual severance insurance deposits, in which the beneficiary is a respective employee, are presented as deduction from accrued severance benefits.

Before April 1999, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of the employees 6 percent portion and is paid back at the termination of service by offsetting the receivable against the severance payment. Such receivables, totalling ₩39,691 million (US\$38,025 thousand) and ₩44,892 million (US\$43,008 thousand) as of December 31, 2004 and 2003, respectively, are presented as a deduction from accrued severance benefits. Since April 1999, according to a revision in the National Pension Law, the Company and its employees each pay 4.5 percent of monthly pay to the Fund.

## STOCK OPTIONS

The Company computes total compensation expense to stock options, which are granted to employees and directors, by fair value method using the option-pricing model. The compensation expense has been accounted for as a charge to current operations and a credit to capital adjustments from the grant date using the straight-line method.

## DERIVATIVE INSTRUMENTS

All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations. The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations.

The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

# Notes to Non-Consolidated Financial Statements

As of December 31, 2004 and 2003

## ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION

The Company maintains its accounts in Korea won. Transactions in foreign currencies are recorded in Korean won based on the prevailing rates of exchange on the transaction date. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying non-consolidated financial statements at the exchange rates prevailing at the balance sheet dates. The balances have been translated using the Basic Rate announced by Seoul Money Brokerage Services, Ltd., which was ₩1043.80 and ₩1,197.80 to US \$1.00 at December 31, 2004 and 2003, respectively, and the translation loss and gain is reflected in current operations.

## INCOME TAX EXPENSE

The Company recognizes deferred income taxes. Accordingly, income tax expense is determined by adding or deducting the total income tax and surtaxes to be paid for the current period and the changes in deferred income tax debits (credits). The difference between the income tax expense and the amount of income tax shown in the current period's tax return will be offset against the deferred income tax credits (debits), which will occur in subsequent periods.

## ORDINARY (NET) INCOME PER COMMON SHARE

Basic ordinary income per common share and net income per common share are computed by dividing ordinary and net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted ordinary income per common share and net income per common share are computed by dividing diluted ordinary and net income, which is adjusted by adding back the after-tax amount of expenses related to diluted securities, by the weighted average number of common shares and diluted securities, outstanding during the period.

Basic ordinary income per common share and net income per common share for years ended December 31, 2004 and 2003 are computed as follows:

	Korean won (In millions except per share amounts)		U.S. dollars (Note 2) (In thousands except per share amounts)	
	2004	2003	2004	2003
Net income available to common share	₩ 690,569	₩ 769,393	\$ 661,591	\$ 737,108
Extraordinary item	—	—	—	—
Ordinary income available to common share	690,569	769,393	661,591	737,108
Weighted average number of common shares outstanding	350,245,262	362,335,493	350,245,262	362,335,493
Ordinary income per common share	₩ 1,972	₩ 2,123	\$ 1.89	\$ 2.03
Net income per common share	₩ 1,972	₩ 2,123	\$ 1.89	\$ 2.03

Weighted average number of common shares outstanding for the years ended December 31, 2004 and 2003 is computed as follows:

	2004			2003		
	Number of shares	Weight	Weighted average number of common shares outstanding	Number of shares	Weight	Weighted average number of common shares outstanding
Beginning of year	358,420,732	366/366	358,420,732	368,121,297	365/365	368,121,297
Acquisition of treasury stock and stock retirement	(12,500,000)	(*)	(8,184,973)	(10,000,000)	(*)	(5,803,852)
Stock options, exercised	289,854	12/366	9,503	299,435	22/365	18,048
			350,245,262			362,335,493

(\*) Weighted average number of common shares outstanding consists of stock retirement and treasury shares acquisition transactions for the purpose of stock retirement.

Diluted ordinary income per common share and net income per common share for the years ended December 31, 2004 and 2003 are computed as follows:

	Korean won (In millions except per share amounts)		U.S. dollars (Note 2) (In thousands except per share amounts)	
	2004	2003	2004	2003
Net income and ordinary income available to common share	₩ 690,569	₩ 769,393	\$ 661,591	\$ 737,108
Stock option compensation expense (salaries)	-	-	-	-
Ordinary income and net income available to diluted common share	690,569	769,393	661,591	737,108
Weighted average number of common shares outstanding	350,245,262	362,335,493	350,245,262	362,335,493
Effect of dilutive securities on weighted average number of common shares outstanding	303,228	352,325	303,228	352,325
	350,548,490	362,687,818	350,548,490	362,687,818
Diluted ordinary income and net income per common share	₩ 1,970	₩ 2,121	\$ 1.89	\$ 2.03

Effect of dilutive securities on weighted average number of common shares outstanding for the years ended December 31, 2004 and 2003 is computed as follows:

	2004			2003		
	Number of shares	Weight	Weighted average number of common shares outstanding	Number of shares	Weight	Weighted average number of common shares outstanding
Stock options, not exercised(*1)	167,443	366/366	167,443	243,988	365/365	243,988
Stock options, exercised(*2)	140,389	354/366	135,785	114,951	344/365	108,337
			303,228			352,325

(\*1) Number of shares, this year: 345,711 - (345,711 × 5,500/10,666)

Number of shares, previous year: 635,565 - (635,565 × 5,500/8,927)

(\*2) Number of shares, this year: 289,854 - (289,854 × 5,500/10,666)

Number of shares, previous year: 299,435 - (299,435 × 5,500/8,927)

Dilutive securities as of December 31, 2004 are as follows.

	Exercise period	Number of dilutive shares	Exercise price
Stock option	2003.3.18 ~ 2008.3.17	345,711 shares	5,500(US\$5.27)
	2006.2.20 ~ 2011.2.19	430,000 shares	8,200(US\$7.86)

### 3. INVENTORIES:

Inventories as of December 31, 2004 and 2003 consist of the following:

	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Finished goods and merchandise	₩ 395,210	₩ 282,933	\$ 378,626	\$ 271,061
Semi-finished goods and work in process	236,796	199,986	226,860	191,594
Raw materials and supplies	173,503	134,279	166,222	128,644
Materials in transit	64,144	58,541	61,453	56,085
	₩ 869,653	₩ 675,739	\$ 833,161	\$ 647,384



# Notes to Non-Consolidated Financial Statements

As of December 31, 2004 and 2003

## 4. LONG-TERM INVESTMENT SECURITIES

(1) Long-term investment securities as of December 31, 2004 and 2003 consist of the following:

	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Available-for-sale securities	₩ 276,109	₩ 218,673	\$ 264,523	\$ 209,497
Held-to-maturity securities	2,502	21,268	2,397	20,376
	₩ 278,611	₩ 239,941	\$ 266,920	\$ 229,873

(2) Available-for-sale securities included in long-term investment securities as of December 31, 2004 consist of the following:

Company	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	Acquisition cost	Book value	Book value	Percentage of ownership (%)
Listed equity securities:				
INI Steel Co., Ltd.	₩ 99,999	₩ 245,153	\$ 234,865	19.87
LG Telecom Co., Ltd.	10,056	7,375	7,066	0.66
KT Freetel Co., Ltd.	7,200	5,497	5,266	0.12
SeAH Besteel Co., Ltd (formerly Kia Steel Co., Ltd.)	854	543	520	0.17
Kanglim Specific Equipment Automotive Co., Ltd.	347	31	30	0.38
Other	30	1	1	
Unlisted equity securities:				
Dongwon Capital Co., Ltd.	3,000	3,000	2,874	1.77
Asset Management Co., Ltd.	1,024	1,024	981	19.99
Kihyup Technology Banking Corp.	700	700	671	2.41
Mobil.com Co., Ltd.	600	600	575	5.80
Dongyung Industries Co., Ltd.	241	241	231	19.23
Namyang Industrial Co., Ltd.	200	200	192	8.00
The Korea Economic Daily Co., Ltd.	168	168	161	0.22
Pilot Asset Securitization Specialty Co. - beneficiary certificate	10,786	10,786	10,333	-
Other	3,339	790	757	-
	₩ 138,544	₩ 276,109	\$ 264,523	

Available-for-sale securities are valued at fair value. However, available-for-sale securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are valued at cost. The difference between the book value and the acquisition cost of available-for-sale securities, amounting to ₩137,565 million (US\$131,792 thousand) as of December 31, 2004, consist of gain on valuation of long-term investment securities of ₩140,115 million (US\$134,235 million) reflected in capital adjustments and an impairment loss of investment of ₩2,550 million (US\$2,443 thousand) in 2002.

Available-for-sale securities included in long-term investment securities as of December 31, 2003 consist of the following:

Company	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)		Percentage of ownership (%)
	Acquisition cost	Book value	Book value		
Listed equity securities:					
INI Steel Co., Ltd.	₩ 99,999	₩ 190,675	\$ 182,674		18.36
LG Telecom Co., Ltd.	10,056	6,702	6,421		0.66
KT Freetel Co., Ltd.	7,200	4,251	4,072		0.12
Kia Steel Co., Ltd.	854	703	673		0.17
Kanglim Specific Equipment Automotive Co., Ltd.	347	48	46		0.38
Stock Market Stabilization Fund	2,410	9,646	9,241		–
Other	30	1	1		–
Unlisted equity securities:					
Dongwon Capital Co., Ltd.	3,000	3,000	2,874		4.62
Asset Management Co., Ltd.	950	950	910		19.99
Kihyup Technology Banking Corp.	700	700	670		2.41
Mobil.com Co., Ltd.	600	600	575		5.80
Dongyung Industries Co., Ltd.	241	241	231		19.35
Namyang Industrial Co., Ltd.	200	200	192		8.00
The Korea Economic Daily Co., Ltd.	168	168	161		0.22
Other	3,339	789	756		–
	₩ 130,094	₩ 218,673	\$ 209,497		

The difference between the book value and the acquisition cost of available-for-sale securities, amounting to ₩88,579 million (US\$84,862 thousand) as of December 31, 2003, consist of gain on valuation of long-term investment securities of ₩91,129 million (US\$87,305 million) reflected in capital adjustments and an impairment loss of investment of ₩2,550 million (US\$2,443 thousand) in 2002.

(3) Held-to-maturity securities included in long-term investment securities as of December 31, 2004 consist of the following:

	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	Acquisition cost	Book value	Book value	
Government and municipal bonds	₩ 2,413	₩ 2,413	\$ 2,312	
Corporate bonds:				
Acrowave Co., Ltd.	89	89	85	
	₩ 2,502	₩ 2,502	\$ 2,397	

Held-to-maturity securities included in long-term investment securities as of December 31, 2003 consist of the following:

	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	Acquisition cost	Present value discount	Book value	Book value
Government and municipal bonds	₩ 10,213	₩ –	₩ 10,213	\$ 9,784
Corporate bonds:				
Acrowave Co., Ltd.	89	–	89	85
Subordinated bonds:				
Seoul Guarantee Insurance Company	16,200	5,234	10,966	10,507
	₩ 26,502	₩ 5,234	₩ 21,268	\$ 20,376

# Notes to Non-Consolidated Financial Statements

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As the interest rates and repayment periods of corporate bonds were changed by mutual agreement in 1999, the difference between nominal value and present value was presented as bad debt expense, and amortized using the effective interest method over the remaining period.

Maturities of held-to-maturity securities are as follows:

Maturity	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
1 ~ 5 years	₩	1,729	\$	1,656
6 ~ 10 years		773		741
	₩	2,502	\$	2,397

(4) The Company has pledged the following long-term investment securities as collateral for respective investees and performance guarantees as of December 31, 2004:

	Number of shares pledged	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
SeAH Besteel Co., Ltd. (formerly Kia Steel Co., Ltd.)	8,755	₩	65	\$	62
Kisan Mutual Savings & Finance	306,160		–		–
Other	1,500		320		307
		₩	385	\$	369

## 5. EQUITY SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

(1) Equity securities accounted for using the equity method as of December 31, 2004 consist of the following:

Affiliated company	Korean won (In millions)			U.S. dollars (Note 2) (In thousands)			
	Acquisition cost	Net equity value	Book value	Acquisition cost	Net equity value	Book value	Ownership percentage
Kia Motors America, Inc.	₩ 66,798	₩ 17,033	₩ –	\$ 63,995	\$ 16,318	\$ –	100.00
Kia Canada, Inc.	58,507	(16,246)	–	56,052	(15,564)	–	82.53
Kia Motors Deutschland GmbH	53,139	(17,213)	–	50,909	(16,491)	–	100.00
Kia Motors Europe GmbH	111,646	93,040	2,678	106,960	89,135	2,567	100.00
Kia Japan Co., Ltd.	33,197	23,249	23,249	31,804	22,273	22,273	100.00
Kia Motors Slovakia	64,566	58,756	58,756	61,857	56,290	56,290	100.00
PT. Kia Timor Motors	10,908	10,337	10,337	10,450	9,903	9,903	30.00
Dong Feng Yueda-Kia Motors Co., Ltd.	56,148	58,420	64,794	53,792	55,969	62,075	50.00
Hyundai MOBIS	118,993	414,470	427,907	114,000	397,078	409,951	18.19
Kia Tigers Co., Ltd.	20,300	107	6,023	19,448	103	5,770	100.00
Hyundai Powertech Co., Ltd.	120,000	134,475	134,475	114,965	128,832	128,832	50.00
Dymos Inc.	89,438	91,183	105,565	85,685	87,357	101,135	45.37
WIA Corporation	4,905	115,911	92,977	4,699	111,047	89,075	45.14
Haevichi Resort Co. Ltd.	8,520	6,702	7,126	8,162	6,421	6,827	40.00
Bontek Co., Ltd.	2,581	24,523	21,812	2,473	23,494	20,897	39.72
Donghui Auto Co., Ltd.	10,530	8,243	8,303	10,088	7,897	7,955	35.10
Beijing Hyundai Mobis Automotive Parts Co. Ltd.	13,518	13,205	13,239	12,951	12,651	12,683	30.00



Affiliated company	Korean won (In millions)			U.S. dollars (Note 2) (In thousands)			Ownership percentage
	Acquisition cost	Net equity value	Book value	Acquisition cost	Net equity value	Book value	
TRW Steering Co., Ltd.	8,952	6,072	7,330	8,576	5,817	7,022	29.00
Hyundai Hysco Co., Ltd.	64,829	231,081	165,417	62,109	221,384	158,476	24.06
Hyundai Card Co., Ltd.	182,591	29,610	100,092	174,929	28,368	95,892	21.50
Autoever Systems Co., Ltd.	1,000	4,770	4,770	958	4,570	4,570	20.00
EUKOR Car Carriers, Inc.	19,565	40,121	33,307	18,744	38,437	31,909	8.00
EUKOR Car Carriers Singapore Pte.	5	5	5	5	5	5	8.00
China Millennium Corp.	27,177	27,177	27,177	26,037	26,037	26,037	30.30
Hyundai- Motor Group Ltd.	1,508	1,508	1,508	1,445	1,445	1,445	30.00
Kia Motors Australia Pty Ltd.	825	825	825	790	790	790	100.00
Yan Ji Kia Motors A/S	1,792	1,792	1,792	1,717	1,717	1,717	100.00
NGVTEK Com	250	250	250	240	240	240	24.39
Kia Service Philippines Co.	185	-	-	177	-	-	20.00
	<b>₩ 1,152,373</b>	<b>₩ 1,379,406</b>	<b>₩ 1,319,714</b>	<b>\$ 1,104,017</b>	<b>\$ 1,321,523</b>	<b>\$ 1,264,336</b>	

Equity securities accounted for using the equity method as of December 31, 2003 consist of the following:

Affiliated company	Korean won (In millions)			U.S. dollars (Note 2) (In thousands)			Ownership percentage
	Acquisition cost	Net equity value	Book value	Acquisition cost	Net equity value	Book value	
Kia Motors America, Inc.	<b>₩</b> 66,798	<b>₩</b> 4,781	<b>₩</b> -	<b>\$</b> 63,995	<b>\$</b> 4,580	<b>\$</b> -	100.00
Kia Canada, Inc.	58,507	6,537	-	56,052	6,263	-	82.53
Kia Motors Deutschland GmbH	53,139	(2,751)	-	50,909	(2,636)	-	100.00
Kia Motors Europe GmbH	44,695	55,662	25,470	42,820	53,326	24,401	100.00
Kia Japan Co., Ltd.	33,197	25,821	25,821	31,804	24,737	24,737	100.00
PT. Kia Timor Motors	10,908	13,226	13,226	10,450	12,671	12,671	30.00
Dong Feng Yueda-Kia Motors Co., Ltd. Motors Co., Ltd.)	50,893	61,783	70,593	48,757	59,190	67,631	50.00
Hyundai MOBIS	118,993	321,639	331,403	114,000	308,142	317,497	18.35
Kia Tigers Co., Ltd.	20,300	221	10,081	19,448	212	9,658	100.00
Hyundai Powertech Co., Ltd.	120,000	128,607	128,607	114,965	123,210	123,210	50.00
WIA Corporation	347	87,535	61,325	332	83,862	58,752	45.30
Haevichi Resort Co. Ltd.	8,520	5,161	6,048	8,162	4,944	5,794	40.00
Bontek Co., Ltd.	1,950	17,973	13,907	1,868	17,219	13,323	39.00
Donghui Auto Co., Ltd.	10,530	5,528	10,530	10,088	5,296	10,088	35.12
Beijing Hyundai Mobis Automotive Parts Co. Ltd.	13,518	13,264	13,307	12,951	12,707	12,749	30.00
TRW Steering Co., Ltd.	8,952	6,207	8,094	8,576	5,947	7,754	29.00
Dymos Inc.	41,680	47,998	52,026	39,931	45,984	49,843	27.29
e-HD.com Inc.	4,558	2,650	2,650	4,367	2,539	2,539	22.76
Hyundai Hysco Co., Ltd.	64,829	214,999	143,365	62,109	205,977	137,349	24.06
Autoever Systems Co., Ltd.	1,000	3,285	3,285	958	3,147	3,147	20.00
Hyundai Card Co., Ltd.	123,336	23,885	107,936	118,161	22,883	103,407	20.72
EUKOR Car Carriers, Inc.	19,565	28,395	21,202	18,744	27,203	20,312	8.00
Yan Ji Kia Motors A/S	1,792	1,792	1,792	1,717	1,717	1,717	100.00
NGVTEK Com	250	250	250	240	240	240	24.39
Kia Service Philippines Co.	185	185	185	177	177	177	20.00
EUKOR Car Carriers Singapore Pte.	5	5	5	5	5	5	8.00
	<b>₩ 878,447</b>	<b>₩ 1,074,638</b>	<b>₩ 1,051,108</b>	<b>\$ 841,586</b>	<b>\$ 1,029,542</b>	<b>\$ 1,007,001</b>	

# Notes to Non-Consolidated Financial Statements

As of December 31, 2004 and 2003

Equity securities are valued based on the unaudited financial statements with adjustments made for the effects of any significant events or transactions. Also, significant unrealized profit (loss) on intercompany transactions is eliminated.

The difference between the acquisition cost and the Company's portion of an investee's net equity at the date the Company was considered to be able to exercise significant influence over the operating and financial policy of an investee is amortized over 5 years for positive goodwill or reversed over the remaining weighted average useful life of the identifiable acquired depreciable assets for negative goodwill, using the straight-line method.

As of December 31, 2004, the difference between acquisition cost and equity value of ₩167,341 million (US\$160,319 thousand) was accounted for as a charge to beginning retained earnings for ₩145,228 million (US\$139,134 thousand) up to prior year, dividends received under the equity method of ₩28,500 million (US\$27,304 thousand), gain on valuation of ₩58,545 million (US\$56,088 thousand) reflected in current operations, decrease in retained earnings of ₩906 million (US\$868 thousand), investment impairment loss of ₩185 million (US\$177 thousand) and loss on valuation of equity securities accounted for using the equity method, net of ₩6,841 million (US\$6,554 thousand) reflected in capital adjustments.

As of December 31, 2003, the difference between acquisition cost and equity value of ₩172,661 million (US\$165,416 thousand) was accounted for as a charge to beginning retained earnings for ₩1,539 million (US\$1,474 thousand) up to prior year, dividends received under the equity method of ₩9,701 million (US\$9,294 thousand), gain on valuation of ₩153,781 million (US\$147,328 thousand) reflected in current operations, decrease in retained earnings of ₩391 million (US\$374 thousand) and gain on valuation of equity securities accounted for using the equity method of ₩27,433 million (US\$26,282 thousand) reflected in capital adjustments.

Although the Company holds less than 20% of the voting power of Hyundai MOBIS, the Company applied equity method as the Company is presumed to have significant influence on Hyundai MOBIS in accordance with the SKAS No. 15 - Equity Method.

The shares of the Company and its affiliates on EUKOR Car carriers, Inc. and EUKOR Car Carriers Singapore Pte. total more than 20 percent of the outstanding shares; accordingly, the Company applied the equity method.

(2) The changes in goodwill or negative goodwill incurred from the equity securities of affiliates subject to equity method accounting for the year ended December 31, 2004 are as follows:

	Korean won (In millions)				U.S. dollars (Note 2) (In thousands)	
	Beginning of year	Increase	Amortization	End of year	End of year	
Dong Feng Yueda-Kia Motors Co., Ltd.	₩ 8,810	₩ –	₩ 2,436	₩ 6,374	\$ 6,107	
Hyundai MOBIS	9,763	–	(3,673)	13,436	12,872	
Kia Tigers Co., Ltd.	9,860	–	3,944	5,916	5,668	
Haevichi Resort Co., Ltd.	887	–	463	424	406	
Beijing Hyundai Mobis Automotive Parts Co. Ltd.	43	–	9	34	33	
TRW Steering Co., Ltd.	1,887	–	629	1,258	1,205	
Dymos Inc.	4,028	15,459	5,105	14,382	13,779	
Hyundai Card Co., Ltd.	84,051	5,677	19,246	70,482	67,524	
Donghui Auto Co., Ltd.	–	100	40	60	57	
WIA Corporation	(26,210)	–	(3,276)	(22,934)	(21,972)	
Bontek Co., Ltd.	(4,066)	–	(1,355)	(2,711)	(2,597)	
Hyundai Hysco Co., Ltd.	(71,634)	–	(5,970)	(65,664)	(62,909)	
EUKOR Car Carriers, Inc.	(7,193)	–	(379)	(6,814)	(6,528)	
	₩ 10,226	₩ 21,236	₩ 17,219	₩ 14,243	\$ 13,645	

The changes in goodwill or negative goodwill incurred from the equity securities of affiliates subject to equity method accounting for the year ended December 31, 2003 are as follows:

	Korean won (In millions)				U.S. dollars (Note 2) (In thousands)
	Beginning of year	Increase	Amortization	End of year	End of year
Hyundai MOBIS	₩ (15,025)	₩ 19,195	₩ 5,593	₩ 9,763	\$ 9,353
Kia Tigers Co., Ltd.	13,804	–	3,944	9,860	9,446
Dong Feng Yueda-Kia Motors Co., Ltd.	3,748	7,500	2,438	8,810	8,440
Haevichi Resort Co., Ltd.	1,350	–	463	887	850
TRW Steering Co., Ltd.	2,516	–	629	1,887	1,808
Dymos Inc.	6,042	–	2,014	4,028	3,859
Hyundai Card Co., Ltd.	–	93,389	9,338	84,051	80,524
Beijing Hyundai Mobis Automotive Parts Co. Ltd.	–	47	4	43	41
Hyundai Hysco Co., Ltd.	(77,603)	–	(5,969)	(71,634)	(68,628)
WIA Corporation	(29,486)	–	(3,276)	(26,210)	(25,110)
Bontek Co., Ltd.	(5,421)	–	(1,355)	(4,066)	(3,895)
EUKOR Car Carriers, Inc.	–	(7,572)	(379)	(7,193)	(6,891)
	₩ (100,075)	₩ 112,559	₩ 2,258	₩ 10,226	\$ 9,796

(3) Details of valuation using the equity method for the year ended December 31, 2004 are as follows:

	Korean won (In millions)				U.S. dollars (Note 2) (In thousands)
	Beginning of year	Gain / Loss	Others (**)	End of year	End of year
Kia Motors America, Inc.	₩ –	₩ –	₩ –	₩ –	\$ –
Kia Canada, Inc.	–	–	–	–	–
Kia Motors Deutschland GmbH	–	–	–	–	–
Kia Motors Europe GmbH	25,470	(83,842)	61,050	2,678	2,566
Kia Japan Co., Ltd.	25,821	(96)	(2,476)	23,249	22,273
Kia Motors Slovakia	–	(5,285)	64,041	58,756	56,290
PT. Kia Timor Motors	13,226	(160)	(2,729)	10,337	9,903
Dong Feng Yueda-Kia Motors Co., Ltd.	70,593	873	(6,672)	64,794	62,075
Hyundai MOBIS	331,403	128,606	(32,102)	427,907	409,951
Kia Tigers Co., Ltd.	10,081	(4,058)	–	6,023	5,770
Hyundai Powertech Co., Ltd.	128,607	5,854	14	134,475	128,832
Dymos Inc.	52,026	5,679	47,860	105,565	101,135
WIA Corporation	61,325	29,835	1,817	92,977	89,075
Haevichi Resort Co. Ltd.	6,048	1,078	–	7,126	6,827
Bontek Co., Ltd.	13,907	7,472	433	21,812	20,897
Donghui Auto Co., Ltd.	10,530	(2,173)	(54)	8,303	7,955
Beijing Hyundai Mobis Automotive Parts Co. Ltd.	13,307	1,796	(1,864)	13,239	12,683
TRW Steering Co., Ltd.	8,094	(764)	–	7,330	7,022
Hyundai Hysco Co., Ltd.	143,365	25,967	(3,915)	165,417	158,476
e-HD.com Inc.	2,650	–	(2,650)	–	–
Hyundai Card Co., Ltd.	107,936	(66,300)	58,456	100,092	95,892
Autoever Systems Co., Ltd.	3,285	1,485	–	4,770	4,570
EUKOR Car Carriers, Inc.	21,202	12,578	(473)	33,307	31,909



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As of December 31, 2004 and 2003

	Korean won (In millions)			U.S. dollars (Note 2) (In thousands)	
	Beginning of year	Gain / Loss	Others (**)	End of year	End of year
EUKOR Car Carriers Singapore Pte. (*)	5	–	–	5	5
China Millennium Corp.	–	–	27,177	27,177	26,037
Hyundai- Motor group Ltd.	–	–	1,508	1,508	1,445
Kia Motors Australia Pty Ltd. (*)	–	–	825	825	790
Yan Ji Kia Motors A/S (*)	1,792	–	–	1,792	1,717
NGVTEK Com (*)	250	–	–	250	241
Kia Service Philippines Co. (*)	185	–	(185)	–	–
	<b>₩ 1,051,108</b>	<b>₩ 58,545</b>	<b>₩ 210,061</b>	<b>₩ 1,319,714</b>	<b>\$ 1,264,336</b>

(\*) Excluded from using the equity method as individual beginning balance of assets are less than the required assets level of ₩7,000 million and the differences arising from the use of the equity method are not considered material, which are stated at cost.

(\*\*) Others are composed of acquisition or disposal amounts of equity securities, the changes in retained earnings and capital adjustments.

Details of valuation using the equity method for the year ended December 31, 2003 are as follows:

	Korean won (In millions)			U.S. dollars (Note 2) (In thousands)	
	Beginning of year	Gain / Loss	Others (**)	End of year	End of year
Kia Motors America, Inc.	<b>₩</b> –	<b>₩</b> –	<b>₩</b> –	<b>₩</b> –	<b>\$</b> –
Kia Canada, Inc.	–	–	–	–	–
Kia Motors Deutschland GmbH	–	–	–	–	–
Kia Motors Europe GmbH	20,666	(10,283)	15,087	25,470	24,401
Kia Japan Co., Ltd.	23,479	(122)	2,464	25,821	24,737
PT. Kia Timor Motors	11,532	1,067	627	13,226	12,671
Dong Feng Yueda-Kia Motors Co., Ltd.	19,007	22,669	28,917	70,593	67,631
Hyundai MOBIS	188,504	100,531	42,368	331,403	317,497
Kia Tigers Co., Ltd.	14,094	(4,013)	–	10,081	9,658
Hyundai Powertech Co., Ltd.	70,263	8,339	50,005	128,607	123,210
WIA Corporation	32,425	28,900	–	61,325	58,752
Haevichi Resort Co., Ltd.	4,788	1,260	–	6,048	5,794
Bontek Co., Ltd.	6,470	7,437	–	13,907	13,323
Donghui Auto Co., Ltd.	10,530	–	–	10,530	10,088
Beijing Hyundai Mobis Automotive Parts Co. Ltd.	–	(287)	13,594	13,307	12,749
TRW Steering Co., Ltd.	9,080	(986)	–	8,094	7,754
Dymos Inc.	33,119	6,567	12,340	52,026	49,843
e-HD.com Inc.	3,329	(670)	(9)	2,650	2,539
Hyundai Hysco Co., Ltd.	115,086	17,608	10,671	143,365	137,349
Autoever Systems Co., Ltd.	2,186	1,099	–	3,285	3,147
Hyundai card Co., Ltd.	–	(25,278)	133,214	107,936	103,407
EUKOR Car Carriers, Inc.	–	(57)	21,259	21,202	20,312
Yan Ji Kia Motors A/S (*)	1,792	–	–	1,792	1,717
NGVTEK Com (*)	250	–	–	250	240
Kia Service Philippines Co. (*)	185	–	–	185	177
EUKOR Car Carriers Singapore Pte. (*)	–	–	5	5	5
	<b>₩ 566,785</b>	<b>₩ 153,781</b>	<b>₩ 330,542</b>	<b>₩ 1,051,108</b>	<b>\$ 1,007,001</b>

(\*) Excluded from using the equity method as individual beginning balance of assets are less than the required assets level of ₩7,000 million and the differences arising from the use of the equity method are not considered material, which are stated at cost.

(\*\*) Others are composed of acquisition or disposal amounts of equity securities, the changes in retained earnings and capital adjustments.

(4) The cumulative losses not recognized by the Company due to the suspension of the valuation of equity securities accounted for using the equity method as of December 31, 2004 consist of the following:

Company	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	Cumulative losses	Unrealized gains	Cumulative losses	Unrealized gains
Kia Motors America, Inc.	₩ –	₩ 173,840	\$ –	\$ 166,545
Kia Canada, Inc.	16,250	12,723	15,568	12,189
Kia Motors Deutschland GmbH	17,220	34,960	16,497	33,493
	₩ 33,470	₩ 221,523	\$ 32,065	\$ 212,227

The cumulative losses not recognized by the Company due to the suspension of the valuation of equity securities accounted for using the equity method as of December 31, 2003 consist of the following:

Company	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	Cumulative losses	Unrealized gains	Cumulative losses	Unrealized gains
Kia Motors America, Inc.	₩ –	₩ 133,364	\$ –	\$ 127,768
Kia Canada, Inc.	–	7,756	–	7,431
Kia Motors Deutschland GmbH	2,751	26,088	2,636	24,993
	₩ 2,751	₩ 167,208	\$ 2,636	\$ 160,192

(5) Condensed financial information of the affiliates as of December 31, 2004 is described as follows:

Company	Korean won (In millions)				U.S. dollars (Note 2) (In thousands)			
	Assets	Liabilities	Sales	Net income	Assets	Liabilities	Sales	Net income
Kia Motors America, Inc.	₩ 2,008,517	₩ 1,991,484	₩ 5,528,342	₩ 1,225	\$ 1,924,235	\$ 1,907,917	\$ 5,296,361	\$ 1,174
Kia Canada, Inc.	160,733	176,979	567,010	(16,158)	153,988	169,553	543,217	(15,480)
Kia Motors Deutschland GmbH	358,142	375,355	953,446	(12,316)	343,114	359,604	913,437	(11,799)
Kia Motors Europe GmbH	1,942,234	1,849,194	1,983,622	(20,910)	1,860,734	1,771,598	1,900,385	(20,033)
Kia Japan Co., Ltd.	25,441	2,192	1,044	(96)	24,373	2,100	1,000	(92)
Kia Motors Slovakia	59,999	1,243	–	(5,285)	57,481	1,191	–	(5,063)
PT. Kia Timor Motors	63,483	29,027	–	(520)	60,819	27,809	–	(498)
Dong Feng Yueda-Kia Motors Co., Ltd.	315,609	198,769	705,822	6,951	302,365	190,428	676,204	6,659
Hyundai MOBIS	4,699,823	2,341,386	6,435,972	695,964	4,502,609	2,243,137	6,165,905	666,760
Kia Tigers Co., Ltd.	3,123	3,016	18,705	(123)	2,992	2,889	17,920	(118)
Hyundai Powertech Co., Ltd.	809,324	540,375	682,848	12,306	775,363	517,700	654,194	11,790
Dymos Inc.	554,393	353,414	633,300	22,300	531,130	338,584	606,725	21,364
WIA Corporation	1,067,742	810,971	184,310	59,463	1,022,937	776,941	176,576	56,968
Haevichi Resort Co. Ltd.	155,700	138,945	17,990	6,201	149,167	133,115	17,235	5,941
Bontek Co., Ltd.	126,862	65,124	240,015	15,384	121,539	62,391	229,943	14,738
Donghui Auto Co., Ltd.	95,193	71,709	79,433	7,736	91,199	68,700	76,100	7,411
Beijing Hyundai Mobis Automotive Parts Co. Ltd.	112,837	68,822	160,549	6,015	108,102	65,934	153,812	5,763
TRW Steering Co., Ltd.	65,443	44,504	120,672	(1,122)	62,697	42,637	115,608	(1,075)
Hyundai Hysco Co., Ltd.	2,138,409	1,177,902	2,319,787	83,120	2,048,677	1,128,475	2,222,444	79,632
Hyundai Card Co., Ltd.	2,478,407	2,340,688	607,378	(218,229)	2,374,408	2,242,468	581,891	(209,072)
Autoever Systems Co., Ltd.	105,082	81,231	294,046	7,920	100,673	77,822	281,707	7,588
EUKOR Car Carriers, Inc.	1,545,922	1,044,406	1,469,311	143,201	1,481,052	1,000,581	1,407,656	137,192

# Notes to Non-Consolidated Financial Statements

As of December 31, 2004 and 2003

(6) The market price of listed equity securities as of December 31, 2004 is as follows:

Company	Price per share	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
		Number of shares	Market value	Market value	
Hyundai MOBIS	₩ 65,500	15,558,120	₩ 1,019,057	\$ 976,295	
Hyundai Hysco Co., Ltd.	7,580	19,294,680	146,254	140,117	

The market price of listed equity securities as of December 31, 2003 is as follows:

Company	Price per share	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
		Number of shares	Market value	Market value	
Hyundai MOBIS	₩ 64,100	15,558,120	₩ 1,019,057	\$ 955,427	
Hyundai Hysco Co., Ltd.	6,420	19,294,680	146,254	118,674	

(7) The Company has pledged the following equity securities accounted for using the equity method as collateral for borrowings of EUKOR Car Carriers, Inc. as of December 31, 2004:

	Number of shares pledged	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
EUKOR Car Carriers, Inc.	1,760,000	₩ 33,307		\$ 31,909	
EUKOR Car Carriers Singapore, Pte.	8,000	5		5	
		₩ 33,312		\$ 31,914	

(8) In 2004, the Company early applied the SKAS No. 15 - Equity Method, and changed its accounting methods for the treatment of investment securities. As a result, investment securities accounted for using the equity methods and retained earnings for 2003 have been increased by ₩331,403 million (US\$317,497 thousand) and ₩149,649 million (US\$143,369 thousand), respectively. Also, long-term investment securities, capital adjustments, and deferred income tax assets for 2003 have been reduced by ₩997,276 million (US\$955,428 thousand), ₩878,747 million (US\$841,873 thousand) and ₩63,226 million (US\$60,573 thousand), respectively. In addition, net income for 2003 has been increased by ₩63,970 million (US\$61,286 thousand).

This change in accounting methods has been accounted for retrospectively, and the comparative statements for 2003 have been restated. The effect on financial statements due to early application of the SKAS No.15 for preceding years is as follows:

Company	Korean won (in millions, except per share amount)				U.S. dollars (Note 2) (in thousands, except per share amount)			
	2000	2001	2002	2003	2000	2001	2002	2003
Investment securities	₩ 333,029	₩ 499,272	₩ 764,453	₩ 1,291,049	\$ 319,054	\$ 478,322	\$ 732,375	\$ 1,236,874
Deferred income								
tax assets	458,978	641,772	569,977	554,119	439,718	614,842	546,060	530,867
Retained earnings	(765,977)	(279,674)	402,498	990,726	(733,835)	(267,938)	385,608	949,153
Capital adjustments	(329,715)	(20,739)	(7,357)	72,746	(315,879)	(19,869)	(7,048)	69,693
Ordinary income	396,366	462,677	857,572	944,429	379,734	443,262	821,587	904,799
Net income	349,146	579,605	680,407	769,393	334,495	555,284	651,856	737,108
Ordinary income								
per share	785	986	1,849	2,123	0.75	0.94	1.77	2.03
Earnings per share	785	1,495	1,849	2,123	0.75	1.43	1.77	2.03



## 6. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment as of December 31, 2004 and 2003 consist of the following:

Company	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Buildings and structures	₩ 1,401,861	₩ 1,348,211	\$ 1,343,036	\$ 1,291,637
Machinery and equipment	2,543,939	2,189,241	2,437,190	2,097,376
Vehicles	57,769	46,274	55,345	44,332
Dies, molds and tools	1,315,964	1,192,788	1,260,743	1,142,736
Other equipment	191,249	194,345	183,225	186,191
	5,510,782	4,970,859	5,279,539	4,762,272
Less: Accumulated depreciation	(2,383,944)	(2,151,627)	(2,283,909)	(2,061,341)
	3,126,838	2,819,232	2,995,630	2,700,931
Land	1,366,261	1,422,030	1,308,930	1,362,359
Construction in progress	481,809	422,097	461,591	404,385
	₩ 4,974,908	₩ 4,663,359	\$ 4,766,151	\$ 4,467,675

The changes in book value of property, plant and equipment in 2004 are as follows:

	Korean won (In millions)						U.S. dollars (Note 2) (In thousands)	
	Beginning of year	Acquisition	Transfer	Disposal	Depreciation	End of year	End of year	
Land	₩ 1,422,030	₩ –	₩ 11,492	₩ (67,261)	₩ –	₩ 1,366,261	\$ 1,308,930	
Buildings and structures	1,103,447	–	145,869	(79,858)	(50,941)	1,118,517	1,071,582	
Machinery and equipment	1,311,830	–	468,399	(43,809)	(199,478)	1,536,942	1,472,449	
Vehicles	27,859	–	18,709	(1,410)	(9,817)	35,341	33,858	
Dies, molds and tools	294,188	–	159,343	(769)	(103,983)	348,779	334,144	
Other equipment	81,908	–	38,198	(3,126)	(29,721)	87,259	83,597	
Construction in progress	422,097	913,584	(842,010)	(11,862)	–	481,809	461,591	
End of the period	₩ 4,663,359	₩ 913,584	₩ –	₩ (208,095)	₩ (393,940)	₩ 4,974,908	\$ 4,766,151	

The changes in book value of property, plant and equipment in 2003 are as follows:

	Korean won (In millions)						U.S. dollars (Note 2) (In thousands)	
	Beginning of year	Acquisition	Transfer	Disposal	Depreciation	End of year	End of year	
Land	₩ 1,399,283	₩ –	₩ 34,829	₩ (12,082)	₩ –	₩ 1,422,030	\$ 1,362,359	
Buildings and structures	1,021,484	–	134,765	(5,992)	(46,810)	1,103,447	1,057,144	
Machinery and equipment	1,226,206	–	348,240	(70,323)	(192,293)	1,311,830	1,256,783	
Vehicles	23,504	–	14,794	(2,001)	(8,438)	27,859	26,690	
Dies, molds and tools	271,147	–	146,802	(996)	(122,765)	294,188	281,843	
Other equipment	83,683	–	28,240	(918)	(29,097)	81,908	78,471	
Construction in progress	141,546	1,042,305	(707,670)	(54,084)	–	422,097	404,385	
End of the period	₩ 4,166,853	₩ 1,042,305	₩ –	₩ (146,396)	₩ (399,403)	₩ 4,663,359	\$ 4,467,675	

# Notes to Non-Consolidated Financial Statements

As of December 31, 2004 and 2003

As of December 31, 2004, the Company's property, plant and equipment are pledged as collateral for various long-term debt to a maximum of ₩810,518 million (US\$776,507 thousand).

The published value of the Company-owned land totals ₩1,463,843 million (US\$1,402,417 thousand) and ₩1,257,885 million (US\$1,205,102 thousand) as of December 31, 2004 and 2003, respectively, in terms of land prices officially announced by the Korean government.

## 7. INSURANCE:

As of December 31, 2004, inventories and property, plant and equipment are insured for ₩3,822,979 million (US\$3,662,559 thousand). In addition, the Company carries general insurance for vehicles and workers' compensation and casualty insurance for employees. Also, the Company has insurance to cover potential product liability arising from its product liability claims in North America and Europe with maximum coverage of US\$85,000 thousand and in the domestic with maximum coverage of ₩1,000 million (US\$958 thousand).

## 8. INTANGIBLES:

Intangibles as of December 31, 2004 consist of the following:

	Korean won (In millions)			U.S. dollars (Note 2) (In thousands)	
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value	Book value
Industrial property rights	₩ 11,131	₩ 5,297	₩ –	₩ 5,834	\$ 5,589
Right of utilization	18,662	9,423	–	9,239	8,851
Development costs	850,896	247,022	7,703	596,171	571,155
	₩ 880,689	₩ 261,742	₩ 7,703	₩ 611,244	\$ 585,595

Intangibles as of December 31, 2003 consist of the following:

	Korean won (In millions)			U.S. dollars (Note 2) (In thousands)	
	Acquisition cost	Accumulated amortization	Book value	Book value	
Industrial property rights	₩ 9,303	₩ 4,404	₩ 4,899	\$ 4,693	
Right of utilization	18,662	7,556	11,106	10,640	
Development costs	556,562	118,753	437,809	419,438	
	₩ 584,527	₩ 130,713	₩ 453,814	\$ 434,771	

The changes in book value of intangible assets for the year ended December 31, 2004 are as follows:

	Korean won (In millions)				U.S. dollars (Note 2) (In thousands)	
	Industrial property Rights	Right of utilization	Development costs	Total	Total	
Beginning of the year	₩ 4,899	₩ 11,106	₩ 437,809	₩ 453,814	\$ 434,771	
Addition: Expenditures	1,828	–	294,334	296,162	283,735	
Deduction: Amortization	(893)	(1,867)	(128,269)	(131,029)	(125,531)	
Deduction: Impairment	–	–	(7,703)	(7,703)	(7,380)	
End of the year	₩ 5,834	₩ 9,239	₩ 596,171	₩ 611,244	\$ 585,595	

The changes in book value of intangible assets for the year ended December 31, 2003 are as follows:

	Korean won (In millions)				U.S. dollars (Note 2) (In thousands)	
	Industrial property rights	Right of utilization	Development costs	Total	Total	
Beginning of the year	₩ 3,816	₩ 12,972	₩ 282,936	₩ 299,724	\$ 287,147	
Addition: Expenditures	1,772	–	221,020	222,792	213,443	
Deduction: Amortization	(689)	(1,866)	(66,147)	(68,702)	(65,819)	
End of the year	₩ 4,899	₩ 11,106	₩ 437,809	₩ 453,814	\$ 434,771	

Research and development costs for the years ended December 31, 2004 and 2003 are as follows:

	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Development costs	₩ 294,334	₩ 221,020	\$ 281,983	\$ 211,745
Research costs (Manufacturing cost)	80,787	79,773	77,397	76,426
Research costs (SG&A)	163,573	126,799	156,709	121,478
	₩ 538,694	₩ 427,592	\$ 516,089	\$ 409,649

## 9. OTHER ASSETS:

Other assets as of December 31, 2004 and 2003 consist of the following:

	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Long-term deposits	₩ 17,849	₩ 56,423	\$ 17,100	\$ 54,055
Long-term trade notes and accounts receivable, net of unamortized present value discount of ₩1,416 million in 2004 and ₩1,447 million in 2003 (see Note 2)	9,700	7,780	9,293	7,454
Lease and rental deposits	149,030	143,721	142,776	137,690
Other	54,455	60,474	52,170	57,936
	₩ 231,034	₩ 268,398	\$ 221,339	\$ 257,135

## 10. SHORT-TERM BORROWINGS:

Short-term borrowings as of December 31, 2004 and 2003 amount to ₩371,323 million (US\$ 355,742 thousand) and ₩789,942 million (US\$ 756,794 thousand), respectively, and consist of bank loans and commercial papers with annual interest rate ranging from 0.25 percent to 3.60 percent.



# Notes to Non-Consolidated Financial Statements

As of December 31, 2004 and 2003

## 11. LONG-TERM DEBT:

Long-term debt as of December 31, 2004 and 2003 consists of the following:

	Annual interest rate (%)	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2004	2003	2004	2003
Debentures	3.3~9.4	₩ 404,313	₩ 403,775	\$ 387,347	\$ 386,832
Local currency loans					
Reorganization claims	4.14	329,038	436,309	315,231	418,001
Other loans	1.0~6.0	19,548	21,527	18,728	20,623
		348,586	457,836	333,959	438,624
Foreign currency loans					
Reorganization claims	4.14	84,994	121,596	81,427	116,494
Other loans	3.3	325,573	–	311,912	–
		410,567	121,596	393,339	116,494
Total long-term debt		1,163,466	983,207	1,114,645	941,950
Less: Current maturities		(101,324)	(112,929)	(97,073)	(108,191)
		₩ 1,062,142	₩ 870,278	\$ 1,017,572	\$ 833,759

Debentures as of December 31, 2004 and 2003 consist of the following:

Series	Maturity	Annual interest rate (%)	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
		2004	2004	2003	2004	2003
Local currency:						
259 <sup>th</sup>	February 15, 2004	7.0	₩ –	₩ 250,000	\$ –	\$ 239,509
Foreign currency:						
260 <sup>th</sup>	July 11, 2006	9.4	198,322	227,582	190,000	218,032
261 <sup>st</sup>	December 10, 2004	3.3	–	119,780	–	114,754
262 <sup>nd</sup>	May 3, 2005	3.6	156,570	179,670	150,000	172,131
263 <sup>rd</sup>	September 21, 2007	3.5	208,760	–	200,000	–
			563,652	777,032	540,000	744,426
Less: Discount of debentures issued			(2,769)	(3,477)	(2,653)	(3,331)
			560,883	773,555	537,347	741,095
Less: Current maturities of debentures			(156,570)	(369,780)	(150,000)	(354,263)
			₩ 404,313	₩ 403,775	\$ 387,347	\$ 386,832

Local currency loans as of December 31, 2004 and 2003 consist of the following:

	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Reorganization claims:				
Korea Development Bank	₩ 89,565	₩ 111,952	\$ 85,807	\$ 107,254
Kyobo Life Insurance Co.	33,094	41,365	31,705	39,629
SG ABS Ltd.	22,401	27,998	21,461	26,823
Korea Development Leasing Corp.	19,687	24,607	18,861	23,574
Hanaro Finance	21,701	22,393	20,790	21,453
Korea Investment Trust Co., Ltd.	–	20,139	–	19,294
Nara Banking	14,775	18,468	14,155	17,693

	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Hyundai Investment & Securities	11,211	14,012	10,741	13,424
Seoul Guarantee Insurance	8,643	12,561	8,280	12,034
Others	107,961	142,814	103,431	136,823
	329,038	436,309	315,231	418,001
Other loans	19,548	21,527	18,728	20,623
	348,586	457,836	333,959	438,624
Less: Current maturities	(84,327)	(88,612)	(80,789)	(84,894)
	₩ 264,259	₩ 369,224	\$ 253,170	\$ 353,730

Foreign currency loans as of December 31, 2004 and 2003 consist of the following:

	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Reorganization claims:				
Korea Development Bank	₩ 25,887	₩ 37,132	\$ 24,801	\$ 35,574
Bankers Trust Company	22,772	32,665	21,816	31,294
Woori Bank	9,172	12,445	8,787	11,923
First Citicorp Leasing Inc.	6,250	8,965	5,988	8,589
Korea Non-Bank Lease Financing	5,867	8,415	5,621	8,062
Citibank	4,613	6,617	4,419	6,339
Korea Development Leasing Corp.	2,421	3,472	2,319	3,326
Chohung Capital	2,203	3,160	2,111	3,028
Other	5,809	8,725	5,565	8,359
	84,994	121,596	81,427	116,494
Other loans				
Societe Generale	170,755	–	163,590	–
ABN-AMRO	71,148	–	68,163	–
Deutsche Bank	42,689	–	40,898	–
The Export-Import Bank of Korea	40,981	–	39,261	–
	325,573	–	311,912	–
	410,567	121,596	393,339	116,494
Less: Current maturities	(16,997)	(24,317)	(16,284)	(23,297)
	₩ 393,570	₩ 97,279	\$ 377,055	\$ 93,197

In accordance with the court-approved reorganization plan, the above reorganization claims, with the exception of current maturities, will be repaid over seven years beginning 2002 to 2008, after a three-year grace period. The applicable interest rate is variable depending on the three-year non-guaranteed bond circulating earnings rate.

In addition to the pledged assets explained in Note 6, 87 blank checks, 152 blank promissory notes, 2 promissory notes totalling ₩1,820 million (US\$1,744 thousand) are pledged as collateral for the long-term local currency and foreign currency loans.

# Notes to Non-Consolidated Financial Statements

As of December 31, 2004 and 2003

The maturities of long-term debt as of December 31, 2004 are as follows:

Year	Korean won (In millions)				U.S. dollars (Note 2) (In thousands)	
	Debentures	Local currency loans	Foreign currency loans	Total	Total	
2006	₩ 198,322	₩ 85,053	₩ 16,997	₩ 300,372	\$ 287,768	
2007	208,760	83,484	342,570	634,814	608,176	
2008	–	79,911	16,997	96,908	92,841	
Thereafter	–	15,811	17,006	32,817	31,440	
	₩ 407,082	₩ 264,259	₩ 393,570	₩ 1,064,911	\$ 1,020,225	

## 12. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2004, the outstanding balance of installment accounts receivable and notes receivable discounted with recourse amounts to ₩79,555 million (US\$76,216 thousand) and the outstanding balance of accounts receivable from export sales discounted with recourse amounts to ₩2,336,666 million (US\$2,238,614 thousand).

(2) The Company uses a customer financing system related to a long-term installment sales system and has provided guarantees of ₩32,531 million (US\$31,165 thousand) to the banks concerned as of December 31, 2004. These guarantees are all covered by insurance contracts, which regulate a customer and the Company as a contractor and a beneficiary, respectively. In addition, the Company provides payment guarantee to Chohung Bank London Branch amounting to GBP 6,670,000 from July 1, 2004 through June 30, 2005 on behalf of Kia Motors (UK) Ltd., a related party.

(3) The Company is a defendant to seven lawsuits for compensation of losses or damages amounting to ₩6,513 million (US\$6,239 thousand) as of December 31, 2004. Although the outcome of these matters is not currently determinable, the management believes that the resolution of these matters will not have a material adverse effect on the operations or financial position of the Company.

(4) The Company is carrying certain lawsuits pertaining to the disputes with the Brazilian shareholders of Asia Motors Do Brasil S.A. (AMB) and AMB, which was established as a joint venture by Asia Motors with a Brazilian investor, in local and Brazilian court. In 2002, the Company brought the case to the International Court of Arbitration to settle the disputes pursuant to the terms of contract signed at the time of the inception of the joint venture, which stipulates that in case the business has been adversely affected by a party's failure to comply with contract terms and other reasons, the matter should be taken before the International Court of Arbitration for settlement and parties shall be held accountable according to the results. The case was decided in favour of the Company on July 22, 2004, and this ruling by an internationally-recognized dispute-settling organization is believed to set a precedent for a favourable resolution of all the remaining lawsuits in progress in Brazil. In addition, the Company, shareholder of AMB, has already written off this investment of ₩14,057 million (US\$13,467 thousand). Although the outcome of these matters is not currently determinable, the management believes that the resolution of these matters will not have a material adverse effect on the operations or financial position of the Company.

(5) The Company made an agreement with its 9 European sales subsidiaries and agents for them to be responsible for projected costs for dismantling and recycling vehicles sold in corresponding countries to comply with European Parliament directive regarding End-of-Life vehicles (ELV).

## 13. DISPOSAL OF RECEIVABLES, LONG TERM INVESTMENT SECURITIES AND PROPERTIES

The Company entered into a trust contract for maintenance and disposal of receivables, long-term investment securities and properties (book value of ₩154,892 million (US\$148,392 thousand)) of the Company with Woori Bank (trustee hereinafter) on December 27, 2004, and received Class A Certificate and Class B Certificate for the trust contract from the trustee on December 30, 2004. The Company disposed the Class A Certificate (face value of ₩158,000 million (US\$151,370 thousand)) to Pilot Asset Securitization Specialty Co. Also, the Company entered into a lease contract (lease period: 2 years and 6 months) on the trusted property (land and buildings) with Woori Bank. Also, the Company did not recognize the value of the Class B Certificate from the trust contract of property on the balance sheet due to the uncertainty of inflow of economic benefits in the future. As result of this transaction, the Company recorded ₩6,308 million (US\$6,043 thousand) of gain on disposal of investments and ₩3,482 million (US\$3,336 thousand) of loss on disposal of property, plant and equipment as other income and other expenses in 2004.



#### 14. CAPITAL STOCK:

Capital stock as of December 31, 2004 and 2003 consist of the following:

	Authorized	Issued	Par value	Korean won (in millions)	U.S. dollars (Note 2) (in thousands)
2004	820,000,000 shares	347,230,455 shares	₩ 5,000	₩ 1,848,652	\$ 1,771,079
2003	820,000,000 shares	359,730,455 shares	₩ 5,000	₩ 1,848,652	\$ 1,771,079

Also, under the court-approved reorganization plan, on March 30, 1999, ₩5,482,181 million (US\$5,252,137 thousand) of the Company's debt was forgiven, including its guaranteed obligations, and an additional ₩1,799,999 million (US\$1,724,467 thousand) of its liabilities was converted into capital stock for which 119,999,932 new shares were issued at ₩15,000 per share.

On December 7, 2000, ₩714 million (US\$684 thousand) of a creditor's claims in dispute was additionally determined by the court as the Company's reorganization claim and converted into capital stock for which 142,953 new shares were issued.

In accordance with the take-over contract with the Hyundai Motor Company, representing the Hyundai Motor Consortium, effective December 1, 1998, the Company issued new common stock of 172,431,118 shares amounting to ₩938,656 million (US\$899,268 thousand) and the Hyundai Motor Consortium acquired 153,000,000 shares amounting to ₩841,500 million (US\$806,189 thousand) for 51 percent as of March 30, 1999.

Financial institutions, with loans to the Company that had been forgiven or converted into the Company's common stock, and Hyundai Motor Consortium were granted rights to subscribe to the registered non-voting preferred stock with a par value of ₩5,000. On December 28, 1998, the financial institutions acquired rights equal to 10 percent of the forgiven debt and liabilities converted into new capital stock. Also, on December 28, 1998, the Hyundai Motor Consortium acquired rights up to the extent that the Consortium shall own up to 51 percent of all the additional preferred shares to be issued. These pre-emptive rights can be exercised at once or several times in the fifth or tenth year from December 28, 1999, the date the court finally approved the reorganization plan and the Company shall pay the dividend equal to at least 2 percent for the preferred shares to be issued for the exercise of the rights. In 2003, the fifth year from the December 28, 1999, no pre-emptive right was exercised. In addition, the Asia Motors-invested financial institutions and Hyundai Motor Consortium were granted pre-emptive rights under the same conditions as described above.

The Company completed stock retirement of 12.5 million shares of treasury stock on May 28, 2004, which had been acquired for ₩136,700 million (US\$130,964 thousand) for such retirement purposes based on the decision of the Board of Directors on March 19, 2004 and remaining shares of common stock are 347,230,455 shares. Also, the Company completed stock retirement of 10 million shares treasury stock on July 2, 2003, which had been acquired for such retirement purposes based on the decision of the Board of Directors on May 9, 2003. The remaining shares of common stock are reduced from 359,730,455 shares to 347,230,455 shares. Due to these stock retirements, the total face value of outstanding stock of ₩1,736,152 million (US\$1,663,299 thousand) differs from the capital stock amount.

#### 15. CAPITAL SURPLUS:

Capital surplus as of December 31, 2004 and 2003 consist of the following:

	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Paid-in capital in excess of par value	₩ 1,580,065	₩ 1,580,065	\$ 1,513,762	\$ 1,513,762
Gain on capital reduction	119,859	119,859	114,829	114,829
Other	2,031	1,032	1,946	989
	₩ 1,701,955	₩ 1,700,956	\$ 1,630,537	\$ 1,629,580

As a result of the capital reduction on February 2, 1999, the Company recognized the gain in capital surplus amounting to ₩340,848 million (US\$326,545 thousand). In 2001, the Company accounted for the loss from the stock retirement amounting to ₩220,989 million (US\$211,716 thousand) as a charged against the gain on capital reduction.

# Notes to Non-Consolidated Financial Statements

As of December 31, 2004 and 2003

## 16. RETAINED EARNINGS:

Retained earnings as of December 31, 2004 and December 31, 2003 consist of the following:

	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	December 31, 2004	December 31, 2003	December 31, 2004	December 31, 2003
Appropriated				
Legal reserve (*)	₩ 21,900	₩ 9,300	\$ 20,981	\$ 8,910
Reserve for technology development	693,000	214,500	663,921	205,499
	714,900	223,800	684,902	214,409
Retained earnings before appropriations	703,341	766,926	673,827	734,744
	₩ 1,418,241	₩ 990,726	\$ 1,358,729	\$ 949,153

(\*) The Commercial Code of the Republic of Korea requires the Company to appropriate as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock through an appropriate resolution by the Company's Board of Directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

## 17. CAPITAL ADJUSTMENTS:

Capital adjustments as of December 31, 2004 and 2003 consist of the following:

Description	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Treasury stock	₩ (6,104)	₩ (7,839)	\$ (5,848)	\$ (7,510)
Loss on valuation of derivatives	-	(41,599)	-	(39,853)
Stock option cost	3,071	3,622	2,943	3,469
Gain on valuation of long-term investment securities (see Note 4)	140,115	91,129	134,235	87,305
Gain on valuation of equity securities accounted for using the equity method (see Note 5)	32,230	42,495	30,878	40,712
Loss on valuation of equity securities accounted for using the equity method (see Note 5)	(39,071)	(15,062)	(37,432)	(14,430)
	₩ 130,241	₩ 72,746	\$ 124,776	\$ 69,693

(1) Treasury stock

The changes in treasury stock for the years ended December 31, 2004 and 2003 consist of the following:

	Number of shares		Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003	2004	2003
Beginning of year	1,309,723	1,609,158	₩ 7,839	₩ 9,631	\$ 7,510	\$ 9,227
Acquisition	12,500,000	10,000,000	136,700	88,742	130,964	85,018
Retirement	(12,500,000)	(10,000,000)	(136,700)	(88,742)	(130,964)	(85,018)
Disposition	(289,854)	(299,435)	(1,735)	(1,792)	(1,662)	(1,717)
End of year	1,019,869	1,309,723	₩ 6,104	₩ 7,839	\$ 5,848	\$ 7,510

The Company has recorded treasury stock at book value in capital adjustments (see Note 2).

(2) Stock option cost

Stock options granted as of December 31, 2004 are summarized below.

Description	First				Second			
	Shares	Compensation expenses		U.S dollars (Note 2) (In thousands)	Shares	Compensation expenses		U.S dollars (Note 2) (In thousands)
		Korean won (In millions)				Korean won (In millions)		
Granted	950,000	₩ 3,735		\$ 3,578	695,000	₩ 2,974		\$ 2,849
Cancelled	(15,000)	(59)		(56)	(265,000)	(1,134)		(1,086)
Exercised	(589,289)	(2,317)		(2,220)	-	-		-
Remaining	345,711	₩ 1,359		\$ 1,302	430,000	₩ 1,840		\$ 1,763
Grant date	March 17, 2000				February 20, 2003			
Beginning date of exercise	March 18, 2003				February 21, 2006			
Exercise price	₩ 5,500				₩ 8,200			

If all of the stock options, which require at least two-year continued service, are exercised, new shares or treasury stock will be issued in accordance with the decision of the Board of Directors. The Company calculates the total compensation expense using the option-pricing model. In the model, the risk-free rate of 10.0 percent and 4.74 percent, the expected exercise period of 5.5 years and the expected variation rate of stock price of 0.8387 and 0.9504 are adopted for the first and second stock options, respectively. Total compensation expense has been accounted for as a charge to current operations and a credit to capital adjustments over the required period of service from the grant date using the straight-line method.

Compensation expenses associated with stock options of ₩921 million (US\$882 thousand) has been charged to current operations and the compensation expenses of ₩332 million (US\$318 thousand), which were expensed before December 31, 2003, have been reversed due to cancellation of 180,000 shares of the second grant stock options during this period. Compensation expenses of ₩128 million (US\$122 thousand) remain to be expensed over the required period of service as of December 31, 2004.

## 18. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES:

The assets and liabilities denominated in foreign currencies as of December 31, 2004 and 2003 are summarized below.

	Foreign currencies (in thousands)				Korean won (in millions)			
	2004		2003		2004		2003	
Assets	USD	358,557	USD	336,251	₩ 374,262		₩ 402,761	
	EUR	137,261	EUR	77,299	195,317		116,149	
	CS	12,074	CS	9,110	10,467		8,437	
	PD	2,486	PD	-	4,995		-	
	AUD	265	AUD	265	215		238	
					₩ 585,256	₩ 527,585		
Liabilities	JPY	12,741,766	JPY	18,812,581	₩ 128,956		₩ 210,626	
	USD	737,344	USD	666,019	769,640		797,757	
	EUR	243,953	EUR	16,588	347,136		24,924	
	AUD	2,037	AUD	2,119	1,656		1,900	
	DM	2,877	DM	3,596	2,093		2,763	
	PD	172	PD	329	345		700	
	DK	509	DK	-	97		-	
	SF	200	SF	124	184		119	
	SK	-	SK	100	-		17	
	CS	-	CS	1	-		1	
					₩ 1,250,107	₩ 1,038,807		



# Notes to Non-Consolidated Financial Statements

As of December 31, 2004 and 2003

## 19. INCOME TAX EXPENSE AND DEFERRED INCOME TAX ASSETS:

Income tax expense in 2004 and 2003 is computed as follows:

Description	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Income tax currently payable	₩ 114,226	₩ 159,178	\$ 109,433	\$ 152,499
Changes in deferred income taxes due to:				
Temporary differences	70,456	28,538	67,500	27,340
Tax credit carry forward	(45,782)	(12,680)	(43,861)	(12,148)
Income tax expense	₩ 138,900	₩ 175,036	\$ 133,072	\$ 167,691

The difference between income before tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea is as follows:

Description	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Income before tax	₩ 829,469	₩ 944,429	\$ 794,663	\$ 904,799
Permanent differences	3,820	5,385	3,660	5,159
Temporary differences	(202,579)	(44,067)	(194,078)	(42,218)
Other adjustments	19,157	594	18,353	569
Taxable income	₩ 649,867	₩ 906,341	\$ 622,598	\$ 868,309

The changes in accumulated temporary difference in 2004 and 2003 and deferred income tax assets as of December 31, 2004 and 2003 are computed as follows:

Description	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Accumulated temporary difference				
Beginning of period, net	₩ 1,390,113	₩ 1,434,180	\$ 1,331,781	\$ 1,373,999
Changes in the current year, net	(202,579)	(44,067)	(194,078)	(42,218)
End of period, net	₩ 1,187,534	₩ 1,390,113	\$ 1,137,703	\$ 1,331,781
Statutory tax rate (%)	27.50%	29.7/27.5	27.50%	29.7/27.5
	326,572	397,028	312,868	380,368
Tax credit carry forward	202,873	157,091	194,360	150,499
Deferred income tax assets	₩ 529,445	₩ 554,119	\$ 507,228	\$ 530,867

The accumulated temporary differences as of December 31, 2004 and 2003 do not include the temporary differences of ₩261,001 million (US\$250,049 thousand) and ₩272,036 million (US\$260,621 thousand) for the gain on revaluation of land, which may not be disposed of in the near future.

When each temporary difference reverses in the future, it will result in a decrease (increase) of taxable income and income tax payable. Deferred income tax assets are recognized only when it is probable that the differences will be realized in the future.

Effective tax rate of 27.5% including resident tax surcharges is applied to temporary differences expected to be realized after December 31, 2004 in accordance with the change in corporate tax rate announced on December 30, 2003.

## 20. DIVIDENDS:

The computation of the proposed dividends in 2004 and 2003 is as follows:

Description	Korean won (in millions, except per share amount)		U.S. dollars (Note 2) (in thousands, except per share amount)	
	2004	2003	2004	2003
Number of shares eligible for dividend	<b>346,210,586</b>	358,420,732	<b>346,210,586</b>	358,420,732
Face value per share	<b>₩ 5,000</b>	₩ 5,000	<b>\$ 4.79</b>	\$ 4.79
Face value dividend rate	<b>7.00%</b>	7.00%	<b>7.00%</b>	7.00%
Dividend	<b>121,174</b>	125,447	<b>116,089</b>	120,184
Dividend to net income	<b>17.50%</b>	16.30%	<b>17.50%</b>	16.30%
Dividend yield ratio	<b>3.20%</b>	3.40%	<b>3.20%</b>	3.40%

## 21. SUPPLEMENTARY INFORMATION FOR COMPUTATION OF VALUE ADDED:

The accounts and amounts needed for calculation of value added are as follows:

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2004	2003	2004	2003
Ordinary income	<b>₩ 829,469</b>	₩ 944,429	<b>\$ 794,663</b>	\$ 904,799
Labor costs	<b>2,150,595</b>	1,839,928	<b>2,060,352</b>	1,762,721
Interest expense, net	<b>(16,361)</b>	(32,837)	<b>(15,674)</b>	(31,459)
Rent	<b>15,780</b>	14,021	<b>15,118</b>	13,433
Taxes and dues	<b>22,729</b>	19,521	<b>21,775</b>	18,702
Depreciation	<b>396,700</b>	401,958	<b>380,054</b>	385,091
	<b>₩ 3,398,912</b>	₩ 3,187,020	<b>\$ 3,256,288</b>	\$ 3,053,287

## 22. DERIVATIVE INSTRUMENTS:

The Company had entered into derivative instrument contracts to hedge the exposure to variability in expected future cash flows of forecasted export sales that is attributable to changes in foreign exchange rate. The Company has no unsettled derivative instrument contracts as of December 31, 2004.

Derivative instrument contracts as of December 31, 2003 are summarized below.

Bank	Contract amounts (in thousand)		Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
			Fair value	Valuation loss	Capital adjustments	Fair value
Koram Bank and other	EUR	907,000	<b>₩ (79,486)</b>	<b>₩ (31,426)</b>	<b>₩ (41,599)</b>	<b>\$ (76,151)</b>
Koram Bank and other	USD	1,440,000	(17,394)	(17,394)	—	(16,664)
			<b>₩ (96,880)</b>	<b>₩ (48,820)</b>	<b>₩ (41,599)</b>	<b>\$ (92,815)</b>

The effective portion of the derivative contracts for cash flow hedging purpose from forecasted export sales recorded as a capital adjustment, amounting **₩41,599** million (US\$39,853 thousand) as of December 31, 2003, all of which were included in the determination of net income in 2004 and the ineffective portion of the derivative contracts recorded in current operations, amounting **₩48,820** million (US\$46,771 thousand).

# Notes to Non-Consolidated Financial Statements

As of December 31, 2004 and 2003

## 23. RELATED PARTY TRANSACTIONS:

Significant transactions with affiliated companies and related balances for the year ended and as of December 31, 2004 are summarized below.

Description	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	Revenues	Expenses	Revenues	Expenses
Hyundai Motor Company	₩ 356,797	₩ 1,226,748	\$ 341,825	\$ 1,175,271
Hyundai MOBIS	44,851	1,492,643	42,969	1,430,009
Hyundai Hysco Co., Ltd.	2,641	49,801	2,530	47,711
Hyundai Capital Services, Inc.	29,513	64	28,275	61
Hyundai Powertek Co., Ltd.	47,742	350,328	45,739	335,628
Dymos Inc.	16,190	57,726	15,511	55,304
WIA Corporation	244,819	727,697	234,546	697,161
Bontec Co., Ltd.	17	46,507	16	44,555
Autoever Systems Co., Ltd.	901	50,772	863	48,642
KEFICO Corporation	3,146	81,246	3,014	77,837
Asset Management Co., Ltd.	361	151,279	346	144,931
GLOVIS Co., Ltd.	3,003	145,802	2,877	139,684
Donghui Auto Co., Ltd.	11,976	79,522	11,473	76,185
Kia Motors America, Inc.	4,589,058	334,582	4,396,492	320,542
Kia Canada, Inc.	400,462	19,108	383,658	18,306
Kia Motors Europe GmbH	2,136,608	27,767	2,046,952	26,602
Kia Motors Polska Sp.z.o.o.	66,701	1,526	63,902	1,462
Dong Feng Yueda-Kia Motors Co., Ltd.	173,184	–	165,917	–
Other	1,035	48,443	990	46,410
Total	₩ 8,129,005	₩ 4,891,561	\$ 7,787,895	\$ 4,686,301

Description	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	Receivables	Payables	Receivables	Payables
Hyundai Motor Company	₩ 32,561	₩ 167,263	\$ 31,195	\$ 160,244
Hyundai MOBIS	12,051	310,850	11,545	297,806
Hyundai Hysco Co., Ltd.	–	11,651	–	11,162
Hyundai Capital Services, Inc.	1	4	1	4
Hyundai Powertek Co., Ltd.	1,066	63,965	1,021	61,281
Dymos Inc.	–	20,595	–	19,731
WIA Corporation	37	159,987	35	153,274
Bontec Co., Ltd.	3,284	4,666	3,146	4,470
Autoever Systems Co., Ltd.	99	12,154	95	11,644
KEFICO Corporation	–	11,359	–	10,882
Asset Management Co., Ltd.	6	81,348	6	77,934
GLOVIS Co., Ltd.	559	21,376	536	20,479
WISCO Co., Ltd.	1,649	2,917	1,580	2,795
Donghui Auto Co., Ltd.	–	9,835	–	9,422
Kia Motors America, Inc.	2,120	135,476	2,031	129,791
Kia Canada, Inc.	10,467	1,473	10,028	1,411
Kia Motors Europe GmbH	27,487	4,972	26,334	4,763
Kia Motors Polska Sp.z.o.o.	1,864	176	1,786	169
Dong Feng Yueda-Kia Motors Co., Ltd.	18,124	–	17,363	–
Other	98	3,243	93	3,108
Total	₩ 111,473	₩ 1,023,310	\$ 106,795	\$ 980,370

Significant transactions with affiliated companies and related balances for the year ended and as of December 31, 2003 are summarized below.

Description	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	Revenues	Expenses	Revenues	Expenses
Hyundai Motor Company	₩ 414,956	₩ 1,181,764	\$ 397,544	\$ 1,132,175
Hyundai MOBIS	46,798	488,651	44,834	468,146
Hyundai Hysco Co., Ltd.	120	76,872	115	73,646
Hyundai Capital Services, Inc.	30,361	110	29,087	105
Hyundai Powertek Co., Ltd.	12,797	199,208	12,260	190,849
Dymos Inc.	1,291	22,851	1,237	21,892
WIA Corporation	125,505	530,519	120,239	508,257
Bontec Co., Ltd.	27	77,736	26	74,474
Autoever Systems Co., Ltd.	1,515	29,540	1,451	28,300
KEFICO Corporation	2,034	60,377	1,949	57,843
Hankook Logitech Co., Ltd	3	47,656	3	45,656
Asset Management Co., Ltd.	43	123,293	41	118,119
GLOVIS Co., Ltd.	1,812	63,223	1,736	60,570
Kia Motors America, Inc.	3,341,616	203,584	3,201,395	195,041
Kia Canada, Inc.	389,781	22,229	373,425	21,296
Kia Motors Europe GmbH	849,941	29,316	814,276	28,086
Kia Motors Polska Sp.z.o.o.	35,217	3,301	33,739	3,162
Dong Feng Yueda-Kia Motors Co., Ltd.	127,912	–	122,545	–
Other	1,176	45,916	1,125	43,993
Total	₩ 5,382,905	₩ 3,206,146	\$ 5,157,027	\$ 3,071,610

Description	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	Receivables	Payables	Receivables	Payables
Hyundai Motor Company	₩ 19,316	₩ 253,439	\$ 18,505	\$ 242,804
Hyundai MOBIS	33,031	150,626	31,645	144,305
Hyundai Hysco Co., Ltd.	–	7,919	–	7,587
Hyundai Capital Services, Inc.	2	4	2	4
Hyundai Powertek Co., Ltd.	21	47,009	20	45,036
Dymos Inc.	–	5,927	–	5,678
WIA Corporation	610	83,812	584	80,295
Bontec Co., Ltd.	3,183	12,446	3,049	11,924
Autoever Systems Co., Ltd.	3	12,324	3	11,807
KEFICO Corporation	–	10,092	–	9,669
Asset Management Co., Ltd.	–	52,047	–	49,863
GLOVIS Co., Ltd.	9	13,420	9	12,857
WISCO Co., Ltd.	2,199	2,016	2,107	1,931
Donghui Auto Co., Ltd.	55,740	119	53,401	114
Kia Motors America, Inc.	93,060	14,023	89,155	13,435
Kia Motors Europe GmbH	57,185	408	54,785	391
Other	15,638	2,889	14,983	2,768
Total	₩ 279,997	₩ 668,520	\$ 268,248	\$ 640,468



# Notes to Non-Consolidated Financial Statements

As of December 31, 2004 and 2003

## 24. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses in 2004 and 2003 are as follows:

	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Salaries and wages	₩ 437,239	₩ 409,995	\$ 418,892	\$ 392,791
Sales promotion	194,875	213,924	186,698	204,947
Travel	15,832	14,243	15,168	13,645
Communications	8,947	9,494	8,572	9,096
Utilities	7,796	7,445	7,468	7,133
Taxes and dues	6,826	6,447	6,540	6,176
Rent	12,310	13,256	11,793	12,700
Depreciation and amortization	29,265	29,034	28,036	27,816
Repairs and maintenance	4,779	3,602	4,578	3,451
Advertising	91,180	94,051	87,354	90,104
Freight	29,574	31,537	28,333	30,214
Supplies and stationery	3,061	3,282	2,933	3,144
Commissions and fees	94,098	115,589	90,149	110,739
Education and training	6,245	6,654	5,983	6,375
Ordinary research and development	163,573	126,799	156,709	121,478
Overseas marketing	257,046	83,270	246,260	79,776
Export expenses	534,986	357,021	512,537	342,040
Warranty	429,851	412,560	411,814	395,248
Miscellaneous	6,443	5,160	6,173	4,942
	₩ 2,333,926	₩ 1,943,363	\$ 2,235,990	\$ 1,861,815

## 25. GEOGRAPHIC SEGMENT INFORMATION:

The following is a summary of sales by geographic area in 2004 and 2003:

	Korean won (In millions)		U.S. dollars (Note 2) (In thousands)	
	2004	2003	2004	2003
Domestic sales	₩ 4,241,228	₩ 5,126,358	\$ 4,063,257	\$ 4,911,245
Export sales				
North America	4,989,520	3,731,397	4,780,149	3,574,820
Europe	3,649,893	2,145,117	3,496,736	2,055,103
Asia	789,385	558,246	756,261	534,821
The Middle East	582,515	500,546	558,071	479,542
Middle and south America	413,813	320,788	396,449	307,327
China	235,286	175,393	225,413	168,033
Africa	123,945	102,457	118,744	98,159
Other	232,157	179,579	222,416	172,043
	₩ 11,016,514	₩ 7,713,523	\$ 10,554,239	\$ 7,389,848
	₩ 15,257,742	₩ 12,839,881	\$ 14,617,496	\$ 12,301,093

## 26. APPROVAL OF THE FINANCIAL STATEMENTS:

The 2004 financial statements of the Company to be submitted to the shareholders meeting are subject to approval by the Board of Directors, which is tabled at their meeting on March 5, 2005.

## 27. SUMMARY OF RESULTS OF OPERATIONS FOR THE LAST QUARTER:

Results of operations for the last quarters of 2004 and 2003 are as follows.

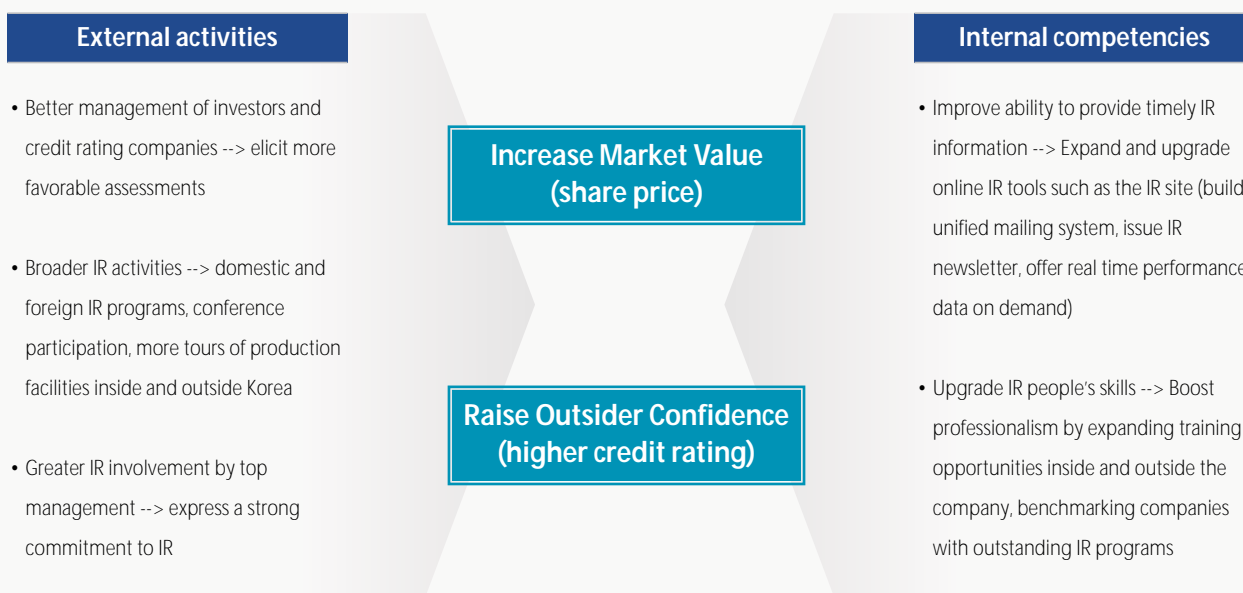
	Korean won (in millions, except per share amount)		U.S. dollars (Note 2) (in thousands, except per share amount)	
	2004	2003	2004	2003
Sales	₩ 4,599,559	₩ 3,938,214	\$ 4,406,552	\$ 3,772,958
Gross profit	738,000	887,262	707,032	850,031
Operating income	104,457	402,310	100,074	385,428
Ordinary income	172,123	367,994	164,900	352,552
Net income	190,481	313,314	182,488	300,167
Ordinary income per common share	550	875	527	838
Earnings per common share	550	875	527	838

# IR Information

## IR ACTIVITIES IN 2004

February	• Conference for 2003 Operating Results and 2004 Business Plan
March	• Annual General Shareholder's Meeting • Annual Report Release (Korean)
April	• Non-Deal Road Show in US • Annual Report Release (English)
May	• Conference for 1st Quarter Operating Results • Corporate Credit Ratings Review (Moody's, Standard & Poor's)
June	• Non-Deal Road Show in Asia
July	• Conference for 1st Half Operating Results
October	• Conference for 3rd Quarter Operating Results
November	• Corporate Operation Review for Credit Ratings (Moody's, Standard & Poor's)
December	• UBS Securities Investors Conference

## 2004 IR STRATEGIES



## STOCK INDICATOR

	2004	2003	2002
No. of Shares (in thousands)	<b>347,230</b>	359,730	369,730
Stock Price (Based on the Closing price, KRW)	<b>10,900</b>	10,900	8,800
Liability / Equity	<b>113.2%</b>	127.2%	127.3%
Total Debt / Total Asset	<b>15.6%</b>	20.4%	16.8%
Net Debt / Equity	<b>2.6%</b>	4.4%	Net Cash
Total Debt / EBITDA	<b>1.65x</b>	1.67x	1.35x
EBITDA / Interest Expense	<b>8.47x</b>	11.90x	7.39x
PER (Price Earnings Ratio)	<b>5.53x</b>	5.13x	4.76x
EPS (Earnings per Share, KRW)	<b>1,972</b>	2,123	1,849
ROE (Return on Equity)	<b>14.22%</b>	17.98%	18.92%
EV / EBITDA	<b>3.68x</b>	3.22x	2.88x
Equity held by Foreigners	<b>36.52%</b>	33.10%	17.26%
Dividend Rate	<b>7%</b>	7%	5%
Dividend Payout Ratio	<b>17.5%</b>	16.3%	13.5%

## KIA MOTORS SHARE PRICE VS. KOSPI



The price movement of Kia Motors shares mainly followed the KOSPI average, and return remained slightly lower than the market rate. Even though the company bought back and cancelled 12.5 million shares, the share price lagged because the number of outstanding shares remained excessive in comparison to the scale of operations.

Other factors negatively affected share performance as well. The productivity of domestic sales organization was evaluated to have weakened. Sales for RVs (SUVs, minivans and MPVs), Kia's mainstay product segment, were sluggish because of the changing government policy towards automobiles (a new tax regime, higher diesel prices, etc.). At the same time, prices for raw and secondary materials rose, while the Korean Won has appreciated sharply against the Dollar since the fourth quarter of 2004.

On January 2, 2004, the share price stood at ₩11,400. It peaked at ₩12,350 on April 8, bottomed out at ₩8,600 on August 6 and closed the year at ₩10,900.

In the first quarter of 2005, overhang related with creditors and Hyundai Capital was reduced. And Mr. Eui-Sun Chung, Kia Motors' new president & CEO, took over 1.01% ownership of the Company. Inefficiencies in production and sales will be eliminated, while synergy with Hyundai Motor will be increased. These developments are expected to bolster the company's fundamentals.

Meanwhile, Kia is scheduled to introduce new models in the key minivan and mid-size sedan segments in 2005. Steadily rising sales outside Korea, especially in Europe, are also helping to elevate the price of the company's shares. On March 14, 2005, the share price reached ₩15,650, the first time it has topped the ₩15,000 mark since April 2002.



## Five-Years Summary

(Units, Korean won in millions)

	2004	2003	2002	2001	2000
<b>Sales Volume</b>	<b>1,011,429</b>	<b>858,697</b>	<b>894,268</b>	<b>899,788</b>	<b>856,045</b>
Domestic	250,643	319,795	444,444	411,321	408,378
Export	760,786	538,902	449,824	488,467	447,667
<b>Revenue</b>	<b>15,257,742</b>	<b>12,839,881</b>	<b>12,158,113</b>	<b>11,129,204</b>	<b>9,744,843</b>
Domestic	4,241,228	5,126,358	6,304,394	5,146,620	4,996,026
Export	11,016,514	7,713,523	5,853,719	5,982,584	4,748,817
<b>Operating Income</b>	<b>502,455</b>	<b>812,440</b>	<b>658,493</b>	<b>522,241</b>	<b>353,127</b>
<b>Ordinary Income</b>	<b>829,469</b>	<b>944,429</b>	<b>857,572</b>	<b>462,677</b>	<b>396,366</b>
<b>Net Income</b>	<b>690,569</b>	<b>769,393</b>	<b>680,407</b>	<b>579,605</b>	<b>349,146</b>
<b>Total Assets</b>	<b>10,871,468</b>	<b>10,482,033</b>	<b>8,962,680</b>	<b>8,292,948</b>	<b>8,180,973</b>
Current Assets	2,926,512	3,251,294	2,921,333	2,419,877	2,542,022
Non-current Assets	7,944,956	7,230,739	6,041,347	5,873,071	5,638,951
<b>Total Liabilities</b>	<b>5,772,379</b>	<b>5,868,953</b>	<b>5,018,964</b>	<b>5,045,450</b>	<b>5,107,764</b>
Current Liabilities	3,625,479	3,839,030	2,679,543	2,540,899	2,601,221
Long-term Liabilities	2,146,900	2,029,923	2,339,421	2,504,551	2,506,543
<b>Total Shareholders' equity</b>	<b>5,099,089</b>	<b>4,613,080</b>	<b>3,943,716</b>	<b>3,247,498</b>	<b>3,073,209</b>
Capital Stock	1,848,652	1,848,652	1,848,652	1,847,987	2,247,987
Capital Surplus	1,701,955	1,700,956	1,699,924	1,699,924	1,920,913
Retained Earnings	1,418,241	990,726	402,498	(279,674)	(765,976)
Capital Adjustments	130,241	72,746	(7,358)	(20,739)	(329,715)

# Board of Directors

## 1. Mong-Koo Chung

- Graduated from the Department of Industrial Management, Hanyang University
- Received honorary Ph.D. degree in Humane Studies from Central Connecticut State University
- A Professor Emeritus of Business Administration at Qinghua University, China
- Received honorary Ph.D. degree in Business Administration from Mongol National University
- Vice Chairman for FKI (Federation of Korean Industries)
- Received Award for Distinguished Contribution to Automotive Industry from the U.S. Automotive Hall of Fame (2001)
- Currently, Representative Director & Chairman for Kia Motors Corp.

## 2. Ik-Hwan Kim

- Graduated from the Department of Business Administration, Sungkyunkwan University
- Joined Hyundai Group (1977)
- Joined Hyundai Precision Industry (1986)
- Director of Koryeo Industrial Development Co. (1995)
- Senior Vice President of Hyundai Development Company (1999)
- Executive Vice President of Kia Motors (2001)
- Vice President, Head of Public Relations Division, Kia Motors (2003)
- Vice President, Head of Domestic Sales Headquarter, Kia Motors (2004)
- Currently, Kia Motors President & CEO

## 3. Eui-Sun Chung

- Graduated from Korea University, Department of Business Administration
- Obtained Master's Degree in Business Administration from the University of San Francisco
- Itochu Corporation, New York, USA
- Deputy Head of Hyundai Motor Domestic Sales Division
- Deputy Head of Hyundai Motor/Kia Motors After-Sales Division
- Deputy Head of Hyundai Motor/Kia Motors Planning Division
- Head of Kia Motors Planning Office
- Currently, Kia Motors President & CEO

## 4. Tae-Hwan Koo

- Graduated from the Department of Business Administration, Yonsei University.
- General Manager of Hyundai Mobis Group. (1995)
- Director of KIA Motors. Co., Ltd. Finance Management Team. (2001)
- Currently, Head of Treasury Group at Kia Motors Corp.

## 5. Yul Choi

- Graduated from the Graduate School of Mass Communication, Korea University
- Graduated from the Graduate School of Journalism & Mass Communication, Yonsei University
- First Co-Chairman of the Korea Environmental Social Organization Council
- Co-Representative for the Citizen's Coalition for General Election
- An outside director of Samsung SDI Co.,Ltd.
- Director General for the Korean Federation for Environmental Movement
- Co-Representative for Solidarity for Citizens and Social Organizations
- Co-Chairman of the Korean Federation for Environmental Movement
- Currently, Executive Director of the Environment Foundation

## 6. Jong-Am Chung

- Graduated from the Department of Business Administration, Yonsei University
- Received MBA degree from Illinois State University
- Received Ph.D. degree in accounting from Yonsei University
- Treasurer for Yonsei University
- Dean of Graduate School of Business Administration, Yonsei University
- President of the Korea Accounting Association
- President of the Korean Academic Society of Business Administration
- Dean of the College of Business & Economics
- Professor of Business Administration at Yonsei University

## 7. Dong-Sung Cho

- Graduated from the Department of Business Administration, Seoul National University
- Received MBA degree from Bowling Green University
- Received Ph.D. in Business Administration from Harvard University
- Regional Chairperson of the Academy of International Business
- President of the 21st Century Academy
- Chairman of the Strategic Management Society
- Outside Director at Dacom
- Dean of the School of International and Area Studies, Seoul National University
- Dean of the College of Business Administration, Seoul National University
- Professor of Business Administration at Seoul National University

## 8. Jong-Chang Kim

- Graduated from the Department of Business Administration, Seoul National University
- President of the Tax Officials Training Center
- Head of the Seoul Regional Tax Office
- Currently, Representative of Kim Jong-chang Tax/Accounting Office

## 9. Fun-Koo Park

- Bachelor of Science in mathematics, Seoul National University
- Doctor's degree in economics, the Graduate School of the University of Minnesota
- Advisor to the minister of the labor ministry (1988)
- Vice president of the Korea Labor Institute (1991)
- Presidential Secretariat for labor issues (1996)
- Member of the 3rd Committee for Labor, Management, and Government (1996)
- 4th Chairman of the Korea Labor Institute (2000)
- Member for public interests in the National Labor Relations Commission (present)
- Adjunct professor in the Business Department of Myong-ji University (present)
- Advisor to Kim & Jang (present)

# History

1944



Since its foundation in 1944, Kia Motors has devoted itself for more than half a century to the sole purpose of personal mobility. Kia's product development history extends from Korea's first domestically produced bicycle through two-wheel motorbikes, three-wheel vehicles, and four-wheel-drive trucks, to the family car, telling a story all its own.

- 1944 \_ Company founded as KyungSung Precision Industry
- 1952 \_ Company produces first Korean-made bicycle, the Samcheolli model
- 1957 \_ Siheung Plant completed
- 1961 \_ C-100 motorcycle enters production
- 1962 \_ K-360 3-wheel truck introduced



1973

1973 is a watershed in the history of Kia and Korea's automobile history as it marks the opening of the Sohari Plant and the start of mass production. With it Kia introduced the nation's first conveyor-system production line, set up a production structure based on a single continuous process, and produced the first four-wheel trucks and cars to be made in Korea, thus breaking new ground as an all-round vehicle manufacturer.

- 1971 \_ Kia Service Corp. established Titan and Boxer four-wheel trucks enter production
- 1973 \_ Sohari factory built
- 1973 \_ Kia produces first Korean-made gasoline engine (2,000cc)
- 1974 \_ Kia begins production of first Korean-made passenger car, Brisa
- 1975 \_ First export of finished automobile (Brisa pickup)
- 1976 \_ Take-over of Asia Motors Co.
- 1978 \_ Diesel engine enters production
- 1979 \_ Assembly of Peugeot 604 sedan commenced
- 1979 \_ Assembly of Fiat 132 sedan commenced



1980

The boom years for Kia Motors, the 1980s began with landmark events including the assassination of President Park Chung Hee and the second world oil shock. But Kia turned crisis into opportunity as external events were used to spur innovation and the achievement of unprecedented growth through far-reaching cost reductions, technological development, and a bold sales strategy.

- 1980 \_ Bongo Truck small cargo vehicle produced
- 1981 \_ Bongo Coach minibus produced
- 1983 \_ Ceres multipurpose farm truck produced
- 1986 \_ Besta minibus produced
- Kia basketball team formed
- Pride (Festiva) passenger car produced
- First export of Pride model
- Concord mid-size passenger car produced
- 1988 \_ Trade 2.5-ton truck produced
- Rhino 5-ton truck marketed
- Total vehicle production to date reaches 1 million units
- 1989 \_ Capital mid-size passenger car launched



1990

In the 90s, Kia laid down a concrete plan of action centered on a global management strategy. With the construction of the Hwasung Plant, the production system was expanded to an international scale, and by developing its own first new model, Kia gained technological competitiveness in the global market. A change of name from Kia Industries to Kia Motors, along with a new logo, helped bring Kia into the ranks of full-line automobile manufacturers.

- 1990 \_ Asan Bay Plant constructed
- Company name changed to Kia Motors Corp.
- 1991 \_ Sephia compact sedan and Sportage SUV appear in 29th Tokyo Motor Show
- 1992 \_ Sephia and Potentia luxury sedan enter commercial production
- New company headquarters constructed
- Kia Japan Corp. established
- Kia Motors America established
- 1993 \_ Total vehicle production reaches 3 million units Sportage enters commercial production
- Comprehensive vehicle proving ground constructed
- 1994 \_ Kia Motors celebrates 50th anniversary
- Group corporate identity revised
- Avella (Aspire) enters production
- Sephia and Sportage exported to U.S.A.
- 1995 \_ Credo (Claros) mid-size sedan introduced
- Tokyo R&D center opened
- Pregio minibus produced



**The Power to Surprise™**



- 1996 \_ Sephia and Credos exported to Europe Elan sports roadster produced  
Kia Sihwa Research Center constructed  
Total vehicle production reaches 5 million units
- 1997 \_ Enterprise luxury sedan launched  
Bongo Frontier produced  
Sephia wins China World Rally  
Sephia II produced  
Plant constructed for joint venture in China  
Shuma mid-size sports sedan introduced
- 1998 \_ Carnival minivan produced  
Credos II mid-size sedan produced  
Frontier Tilting cap 1-ton truck produced  
Parktown multipurpose 7-passenger wagon produced  
Total exports to date reach 2 million units
- 1999 \_ Asan Bay Plant renamed to Hwasung Plant  
Kia New Start 2000 event held  
Exhibition of new models,  
Visto compact car, Carstar RV and Millennium Rio produced

- 2003 \_ Opirus (Amanti) launched  
Main sponsorship agreement signed for Australian Open through 2008  
X-Trek launched  
Visto Fuel Mileage Championship held  
ISO 14401 certification received  
Kia and Hyundai R&D units merged: ground broken for new Environment Technology Center  
Global environmental management initiative declared  
2 millionth Bongo van sold  
Official cars provided for Daegu Universiade  
Carnival production begun in Malaysia  
Company participates in 2nd Annual Busan Motor Show  
Opirus (Amanti) launched in North American market  
Exports break 4 million mark  
Cerato launched  
2003 Global Dealer Conference opened in Sydney  
US\$5 Billion Export Award received on Trade Day

## 2000



Kia Motors staged a stunning turnaround after the financial difficulties brought on by the foreign currency crisis of 1997. A company-wide management overhaul following the crisis achieved a complete normalization of management, and in 2001 the company achieved its highest annual profit since its foundation.

Kia is now preparing to join the ranks of the world's top five car manufacturers by 2010.

- 2000 \_ Kia Sportage completes Paris-Dakar Rally  
BI logo introduced to whole range of Kia vehicles in domestic market  
Spectra produced  
Carens 2.0 Di LPG-powered vehicle produced  
Optima mid-size sedan produced  
Retona Cruiser jeep produced  
Sportage wins Baja 2000 Rally



- 2004 \_ Unveiled Morning (Picanto)  
Unveiled Sportage, compact SUV  
Unveiled Bongo III Truck/ Bus  
Commenced construction work for a plant in Slovakia  
Held a signing ceremony for the 2nd plant of Dongfeng Yueda Kia Motors in China  
Designed a new Corporate Identity (CI)  
Awarded first place in the Korean Standard-Service Quality Index (KS-SQI)  
Awarded the Order of Industrial Service Merit Silver Tower in the Korean Logistics Award  
US\$ 7 Billion Export Award received on Trade Day  
Kia Motors UK Limited: named as the 2004 Franchise of the Year by Motor Trader  
Sportage: awarded the grand prize at the Korea Color Design Awards  
Sportage: awarded the grand prize at the Korea Industrial Design Awards (KIDA)



- 2001 \_ Carnival II marketed  
Kia receives Korea HR management award (12th)  
Kia wins grand prize in Korea Quality Management Award  
Kia Tigers baseball team formed Full entry into Chinese automobile market

- 2002 \_ Carnival Common Rail marketed  
Sorento luxury SUV marketed  
Kia Q Service enters full operation  
Diesel-powered Carens II marketed  
Cumulative production reaches 10 million units  
First Skill World Cup Competition held  
Regal mid-size sedan marketed  
Company awarded 2002 Value Management Award  
Upgraded compact sedan Rio SF marketed  
Subsidiary companies established in 5 European countries  
Company awarded Grand Prize in Korea Service Quality Award  
Sorento begins exports to overseas market

- 2005 \_ Unveiled Pride (New Rio)  
Ranked first for sales growth in the western European market for two consecutive years ('03, '04)  
Opirus: selected as "the Most Delightful Vehicle" in the US  
Hyundai-Kia Motors: selected as FIFA 's Official Automobile Partner

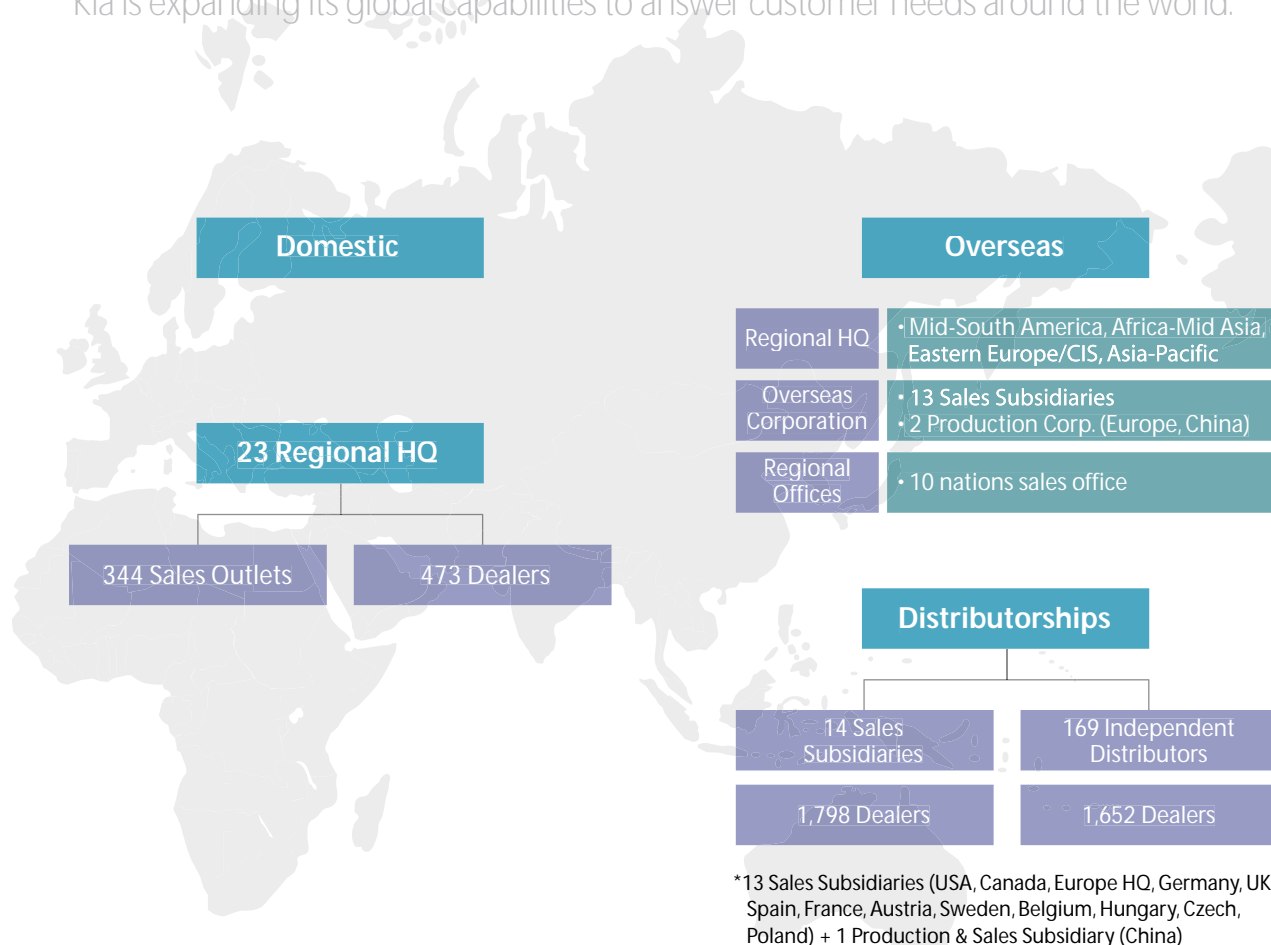




## Global Networks

With operations in 180 countries around the world, Kia Motors is a true global player.

Kia is expanding its global capabilities to answer customer needs around the world.



• Sohari Plant



Pride / New Rio,  
Carnival / Sedona

• Hwasung Plant

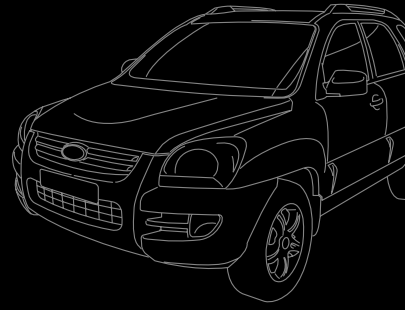


Sorento, Carens,  
Opirus / Amanti,  
Cerato / New Spectra,  
Optima / Magentis, etc.

• Gwangju Plant



Bongo , Sportage, Military  
Vehicles, Large Bus, etc.



**KIA MOTORS**

*The Power to Surprise™*

*Kia Motors is earning a lot of new names:*

Major world player



Dream maker



Trusted company who satisfies customers

